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Japan's monetary policy
Sounds of real debate
emerge from central bank
Page 12



Bavaria
Stoiber's crime clampdown
exposes an uglier side
Inside Track, Page 9



Marcel Ospel
'We are determined to
build UBS's US business'
Page 8

MBA students' heroes
Family values replace
the dash for cash
Page 10

WORLD NEWS

Japan expected to drop high-profile investigation into financial corruption

Japan appears to be dropping its high-profile probes into financial corruption among bankers and bureaucrats which have tarnished the reputations of many prominent institutions and officials in the financial community, including the Bank of Japan and the Finance Ministry. Page 14; Savings system faces loss, Page 4

Hungary uncertain after vote
Hungary's political future looked uncertain as neither the ruling Socialist party nor the centre-right Fidesz-Hungarian Civic party appeared to have secured an overall majority in the third poll since the fall of communism. Page 8

Ortega keeps Sandinista post
Daniel Ortega and Tomas Borge, the old guard of Nicaragua's Sandinista leadership, were re-elected to top posts in the party, in a setback for reformers. Page 5

Hong Kong goes to the polls
More than half of Hong Kong's voters cast their ballots in the first elections under Chinese rule, despite heavy rains which flooded seven polling stations. Page 4

Aircraft hijacked in Pakistan
A Pakistan International Airlines aircraft with 38 people on board was hijacked during a domestic flight in southern Pakistan. It landed at Hyderabad airport, where the three hijackers claimed to be Indians. Page 2

Bid to woo Israelis to Golan
A campaign to settle more Israelis in the Golan Heights will begin today with the sale of state-subsidised homes, the Golan Heights settlers regional council said. Golan Heights bows to pressure, Page 2

Slovakia puts EU entry at risk
Slovakia risks an open conflict with Austria over its plans to start up a Soviet-designed nuclear power station. The dispute could reduce Slovakia's chances of admission to the European Union. Page 2

US continues Saudi probe
The US is continuing investigations into a possible Iranian link to the 1996 bombing of a military housing complex in Saudi Arabia despite a Saudi statement that foreign terrorists were not involved. Page 3

UK aids on Britain's safety
The UK is seeking assurances about the safety of British employees at the Hub power station near Karachi after police had prevented them from leaving the site. Page 4

Mine expert murdered
British mine clearance expert Christopher Howes, missing in Cambodia for more than two years, was murdered shortly after his kidnapping by Khmer Rouge guerrillas, the Foreign Office said.

Zhu's cuts meet problems
Chinese premier Zhu Rongji has met opposition over plans to cut the central government's bureaucracy by half. Page 4

Army steps up Hutu offensive
The Tutsi-dominated Rwandan army said it had stepped up operations to crush Hutu militia hiding in the north of the country. Cholera has killed 31 people in the country's southwest.

43 die in Sri Lankan fighting
At least 43 people died in fierce fighting between Sri Lankan troops and Tamil Tiger rebels in the east and north of the country, military officials said.

Colombian rebels storm prison
About 200 leftwing rebels stormed a prison in southwest Colombia, freeing more than 320 convicts and killing two guards and two inmates.

BUSINESS NEWS

Crédit Lyonnais to launch rescue plan by selling stake of up to a third

Crédit Lyonnais of France plans to sell up to a third of its shares to institutional investors before the end of the year. The move will be a stage towards the privatisation agreed last week in a Brussels-approved rescue plan. Page 15

Swiss Bank Corporation knew of Union Bank of Switzerland's derivatives problems when their courtship began, said SBC chief executive Marcel Ospel. UBS's global equities derivatives management group is said to have been responsible for losses of up to \$1.5bn (\$1.544bn) in 1997. Page 17; Premier league player, Page 8

Mirror Group, UK tabloid newspaper owner, is expected to receive approaches from other suitors after it emerged that Germany's Axel Springer group is considering a bid. Page 15

Bertelsmann's planned joint digital pay-TV venture with fellow German media company Kirch looks likely to fall foul of the European Commission. Press reports say they refused to make concessions to enable the plan to get EU competition authority approval. Page 2

British electricity supply groups want the government to reject proposals that would force them to split some businesses. They say the move could cost £500m (£635m). Page 6

Cantor Fitzgerald and the New York Cotton Exchange have modified their electronic trading system proposals in the hope of winning approval for their challenge to the Chicago futures exchanges. Page 15; Outcry over plan, Page 16

Bank for International Settlements figures show loans by international banks to Asia fell by a net \$4.8bn in the second half of 1997. Lending to South Korea and Thailand fell, while loans to China, Latin America and eastern Europe rose. Page 2

Bank of New York is keen for more acquisitions after withdrawing last week from its \$24bn bid for Mellon Bank of the US. Page 16

IBM of the US has hit problems in developing CoreBank, its basic computer platform for banks. IBM has sold the system in the UK, France and Sweden, but has had difficulties adapting it. Page 16

Monsanto, US life sciences group, is a leading contender to buy Plant Breeding International, the seed business Anglo-Dutch group Unilever put up for sale last month. Page 16

China plans to amalgamate provincial telecoms authorities' peering operations into a state company, probably a China Telecom subsidiary. The planned company would be allowed to list some shares to raise funds. Page 3

Postal Savings Bureau, Japan's state-owned postal savings system, will probably make a loss this year because of the slump in long-term rates, says a senior official. Page 4

Fujitsu saw consolidated net profits dive 88 per cent to ¥5.5bn (\$41.1m). The Japanese computer and semiconductor maker blamed plunging chip prices, Asia's currency crisis and the costs of acquiring Amchil. Page 17

World Equity Markets

The latest trends and data from more than 50 national markets at a glance
Page 25

Parties set for battle over N Ireland assembly seats

By John Murray Brown, David Wighton and Jimmy Burns

Northern Ireland's political leaders yesterday signalled the start of a bitter battle for seats in the province's new assembly amid continued celebrations at the overwhelming endorsement for the Stormont peace agreement in Friday's referendum.

David Trimble, leader of the pro-British Ulster Unionist party, said he would be seeking to persuade the minority of unionists who voted No in the referendum to back pro-agreement candidates in the elections on June 25.

But leaders of the No campaign insisted that a majority of unionists opposed the agreement and predicted they would have a powerful voice in the assembly.

In spite of the emphatic 71 per cent Yes vote in the referendum, politicians on all sides stressed the many obstacles that still lay in the path to a lasting peace.

Gary McMichael, of the Ulster Democratic Party, warned the loyalist ceasefire could be threatened by renewed violence from republican splinter groups following a number of terrorist incidents over the weekend.

There were also nationalist calls for the scrapping of the most contentious Orange parades as the marching season gets under way next week.

Gerry Adams, the president of Sinn Féin, the political wing of the IRA, appealed for a cessation of violence by all armed groups. But Mr Trimble said it was time for Mr Adams "to deliver" by per-

suading the IRA to decommission its weapons.

The strength of the Yes vote will be used this week by Mr Trimble in his attempt to reassert his authority on his party after more than half his MPs rebelled to back the No campaign. Mr Trimble's attempts to persuade his party's constituency associations to select candidates supportive of the agreement will be boosted by the findings of Friday's exit polls. These showed that more than two-thirds of those unionists who voted No still want the assembly to work.

Mo Mowlam, the Northern Ireland secretary, yesterday urged the voters to back candidates who supported the agreement. "We had a vote for non-violence and if people are going

to mirror that, they have to vote for people who will implement the spirit of that agreement."

Jeffrey Donaldson, the young Ulster Unionist MP who backed the No campaign but is seeking party backing to stand for the assembly, said he believed a majority of unionists had voted Yes. Referring to Sinn Féin's efforts to persuade the moderate nationalist SDLP to enter a coalition, Mr Donaldson called for unionism to heal the split. "I think unionism has come to a point where we can find a greater degree of unity in our own ranks," he said.

Reports, Page 6
Past tense, future hopeful and Editorial Comment, Page 13
Lux comment, Page 16

Merger of Russian oil groups 'unlikely to be completed'

By Chrystie Fretland in Moscow

The merger of the Russian oil companies Yukos and Sibneft, billed as creating the world's largest oil group, will be frozen until the end of the year and will probably never take place, according to an executive close to the negotiations.

The companies are expected to announce publicly this week the decision to freeze the merger plan. The statement is expected to insist the separation is amicable and that they will continue to co-operate, using downstream facilities owned by Yukos to sell oil refined by Sibneft.

Formally, they are expected to say only that the merger will be on hold until the end of the year. But senior officials involved say it is unlikely to be completed. Yukos - as the merged group was to be known - was at one time expected to be one of the bidders for Rosneft, another Russian oil group being auctioned by the government this week.

When the Yukos merger was announced at the beginning of this year it was seen as heralding a wave of consolidation in the Russian oil sector and a sign that Russia might soon have oil companies with reserves to rival those of any in the world.

The alliance was also seen as an important political event, signalling a partnership between Mikhail Khodorkovsky, the pow-

erful financial magnate who runs Yukos, and Boris Beresovsky, an influential financier turned politician with close ties to Sibneft.

Executives at Yukos said the merger began to run into trouble this spring, as low international oil prices worsened the financial positions of the two companies and made consolidation more troublesome. Both had dollar-denominated loans which the lower oil price made harder to repay. Yukos took out an \$800m five-year loan from a consortium of foreign banks last year to help buy the Eastern Oil Company, while Sibneft last summer floated a three-year \$150m eurobond.

It has also proved difficult to marry the management teams. After setting up offices in the same building immediately after the merger had been announced, a few weeks ago they moved back to their separate headquarters.

The decision to freeze the merger will raise questions for Elf-Aquitaine, the French oil company which has agreed to buy a 5 per cent stake in Yukos.

Even if the merger is never completed, Elf executives appear confident their group will still secure a strategic foothold in the Russian oil industry. One possibility would be to substitute the 5 per cent stake in Yukos it plans to buy for \$52m for a 12 per cent stake in Sibneft.

Gasprom "under pressure", Page 2



East Timorese rebel leader Jose Alexandre Gusmao (right), one of several political prisoners hoping to be released from jail by the new Indonesian government, with supporters in the grounds of a Jakarta prison yesterday. Two prominent figures may be freed today. Page 14
Picture: AP

Serbs launch attack on Albanian rebels

By Guy Diamond in Belgrade, Serbia

Serbian security forces have launched a large offensive against ethnic Albanian rebels in the southern province of Kosovo, leaving a trail of burning villages as they pound the separatists with artillery and helicopters.

The operation has dashed hopes that US-arranged peace talks, which began on Friday between the Serbian government and political leaders of the ethnic Albanian majority, would stop the conflict from developing into a full-scale war.

Plumes of smoke rose from the rubble of farmhouses in the mainly Muslim village of Dolovo, close to the front line, just south of the town of Klinja. Dead cattle lay in fields.

On doors and walls of the ruined homes, Serbs had daubed in black paint the sign of the cross and the ancient national emblem of four Cyrillic letters that stand for "Only Unity Saves the Serbs".

Artillery and machine-gun fire could be heard from the direction of nearby Jablanica, believed to be a stronghold of the clandestine Kosovo Liberation Army

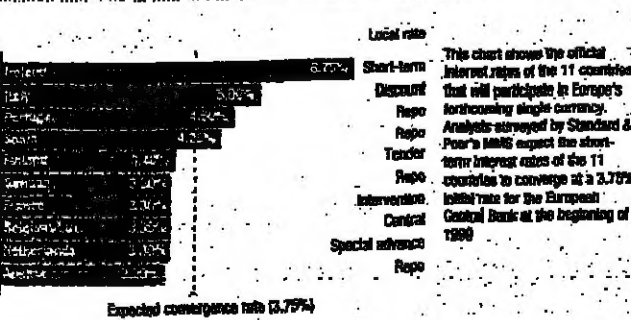
(KLA), which is fighting for Kosovo's independence. Local journalists said Serbian security forces had also opened another front further to the south, close to the border with Albania, in an attempt to encircle the rebels.

The scorched-earth tactics mean many villagers have nothing to return to. The extent of casualties was unknown, but western diplomats said it appeared to be the largest military action in the Balkans since the Croatian army launched Operation Storm in the summer of 1995 to drive Serb forces out of Croatia and western Bosnia.

Official Serbian media said the operation was in response to KLA attacks on police. More than 150 people, mostly ethnic Albanians and including many women and children, are known to have died since Serbian security forces attacked KLA strongholds in central Kosovo in late February and early March.

In that offensive police targeted suspected KLA leaders. The Democratic League of Kosovo, the main ethnic Albanian party led by Ibrahim Rugova, accuses the authorities of waging "ethnic cleansing".

EURO INTEREST RATE CONVERGENCE



Euro prices, Page 21

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Index	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443
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Tehran celebrates a year of reform politics

Government feels it is breaking free from US-imposed sanctions. David Gardner reports

Iran celebrated the first anniversary of the landslide election victory of reformist president Mohammad Khatami at the weekend, along with the registration of the first of what is expected to be a spate of legal political parties.

The celebrations came as the government demonstrated its increasing confidence that it is breaking free from US attempts to isolate the Islamic republic through sanctions.

President Khatami, who unexpectedly thrashed his regime-backed conservative opponent by a margin of 4-1 in last May's presidential elections, was given a rapturous reception on Saturday evening by tens of thousands of youthful supporters crammed into Tehran University, after marches from the capital's main squares.

Chanting support for the president, the demonstrators also held aloft pictures of Oholamhossein Karbaschi, the popular mayor of Tehran and the main strategist behind the Khatami victory.

Student riots last month forced Ayatollah Ali Khamenei, the Supreme Leader under Iran's theocratic constitution, to release Mr Karbaschi after hardliners had him jailed for alleged financial irregularities, in what



Oholamhossein Karbaschi (centre) is likely to head a party of technocrats assembled by Ali Akbar Hashemi Rafsanjani (left) with the blessing of President Mohammad Khatami (right)

was seen in Tehran as a naked political challenge to the reformists.

Mr Khatami won over 70 per cent of the vote on a near 90 per cent turnout with his promise of a more tolerant society opening up to the world after two decades of Islamic revolution.

He was greeted with a 15-minute ovation before he could begin his speech. This centred on his new familiar themes of constructing a dynamic civil society, under the rule of law, to both of which Iran's rulers must be held accountable.

But the 55-year-old cleric devoted a good third of his 90-minute oration to his philosophy of freedom, stating that "if religion comes into conflict with freedom, then

it will be religion that suffers... freedom must be at the root of everything". He added, without naming anybody, that "a lot of people are out for themselves and hiding behind religion" - the furthest he has gone in publicly criticising his opponent.

Throughout his speech, the crowd called for the resignation of Ayatollah Mohammad Yazdi, the powerful head of the judiciary and a Khamenei ally, who jailed Mr Karbaschi. Mr Khatami chided his followers and tried to quell their chants of "death to the monopoly of power".

"In this gathering I would prefer that we talk about life, not death," he said to thunderous applause. He called for tolerance for the

opposition, which was free to say anything it wanted, provided it realised that it was the people who "own the revolution".

"Certain difficulties may slow our progress, but our direction and our policies will not be changed," Mr Khatami said, adding that "the art of a government lies in its ability to get its opponents to act within the law and the framework of the constitution".

In the 10 months since he took office last August, Mr Khatami has managed to expand the bounds of freedom of expression. Nearly 200 new newspaper and magazine titles have been licensed, and tight restrictions on publishing and film screening are being gradually eased.

For the first time since political parties were banned in 1985, a party was formally registered late last week, with more expected before the next parliamentary elections in two years.

The party, expected to be led by Mr Karbaschi, is based on the technocrats assembled by the still-powerful former president, Ali Akbar Hashemi Rafsanjani, who has discreetly backed Mr Khatami.

Building on Mr Rafsanjani's diplomacy, President Khatami's government has moved swiftly to mend the Islamic republic's fences with its Gulf Arab neighbours - especially Saudi Arabia, whose foreign minister, Prince Saud al-Faisal, is expected in Tehran tomorrow - as well as with Egypt, Turkey and even Saddam Hussein's Iraq, with which Iran fought a bitter war in 1980-88.

Mr Khatami has adopted a cautiously conciliatory tone to the US, though the regime as a whole greeted last week's US decision to waive sanctions against European oil companies investing in Iran's oil and gas industry as a victory against American "arrogance".

Mr Rafsanjani said at Friday prayers that the US had "bitten off more than it could chew" with the extra-territorial provisions of last year's Iran Libya Sanctions Act. The oil ministry now expects a host of companies to come forward when Iran offers new fields, on- and off-shore, for tender from July.

EU 'set to block' pay-TV venture

By Peter Warriner in Bonn

The European Commission appears set to reject the proposed joint digital pay-TV venture of Kirch and Bertelsmann, the German media companies, according to German press reports emanating from Brussels.

Germany's DPA news agency and the ARD television channel reported yesterday that the Commission would not approve the plan to fold DFI, the loss-making digital pay-TV venture of Kirch, into Premiere, the analogue subscription service owned by CLT-Ufa, the Luxembourg-based broadcasting group in which Bertelsmann has a 40 per cent stake. The reports said Kirch and Bertelsmann had refused to make further concessions to enable the plan to meet the EU competition authorities' approval.

Kirch said it could not understand the reports because a decision could only come on Wednesday when the Commission will consider the plans. A spokesman for Bertelsmann said it would not comment on unofficial reports but pointed out that the case would be discussed by a committee of competition experts from the EU member states today.

The Kirch spokesman said his company believed that it had put forward a concept that could be approved by the EU authorities after making "wide-ranging concessions" that included giving competitors rights to market Premiere. Bertelsmann said it had provided details of the concessions in written form. No more were possible without exposing the planned joint venture to losses.

Karel Van Miert, the EU competition commissioner, has long been worried that the proposed venture would create a dominant group in the still fledgling German pay-TV market. The Commission set a deadline of June 3 for its decision.

China paging services to be amalgamated

By James Kyte in Beijing

China plans to amalgamate the paging operations of provincial telecoms authorities to create one large state company able to dominate the industry and force a rationalisation among thousands of private beeper services, telecoms officials said.

The proposed company was likely to be a subsidiary of China Telecom, the main state telecoms company, and has been given a provisional name - the China Telecom Paging Company, said the officials, who declined to be identified.

The planned amalgamation was part of a broad industrial strategy to nurture strong companies in key sectors before the country enters the World Trade Organisation. WTO membership, for which there is no timetable as yet, would probably bring a staggered lifting of the prohibition on foreign telecoms companies offering services in China.

The planned company is to be allowed to list some of its shares in order to raise funds to roll out a nationwide infrastructure and upgrade technology, said one official. The venue for flotation has not been fixed but Shanghai was considered more likely than Hong Kong's stockmarket at this stage.

China Telecom already has a listed vehicle in Hong Kong, China Telecom (Hong Kong), which owns the assets of mobile telephone services in the provinces of Guangdong, Jiangsu and Jiangxi. More provincial mobile services are expected to be transferred into the listed vehicle over time.

It is understood, however, that China wants to keep its state paging industry separate from its mobile and fixed line businesses, partly in order to maintain strategic focus for the different arms of China Telecom and partly because the liberalisation timetable for each industry is expected to differ.

In many countries, paging has been among the first areas of the telecoms business to be opened to foreign competition. Foreign companies such as Motorola, the US electronics company, and NEC, the Japanese information technology giant, already dominate equipment supplies to China's pager market, in which there are estimated to be more than 40m users.

Officials said that if the

If the market was opened today, foreign players would have little difficulty in making significant inroads

paging market was opened today, foreign players would have little difficulty in making significant inroads. The thousands of private companies currently in operation - some with only about 2,000 subscribers - lack the funds to expand and the financial depth to withstand protracted price competition. Many of these companies are expected to be driven out of business or into mergers by the creation of the proposed company, which is to be formed by joining the paging services now operated by provincial state's Posts and Telecommunications Administrations.

It is not clear whether China Unicom, a second state operator created to provide competition for China Telecom, would have a stake in the new company. Unicom currently has about 1m subscribers to its paging services, executives said.

US probes Iranian link to Saudi bomb

By Robin Allen in Washington

The US is continuing investigations into a possible Iranian link to the June 1996 bombing of a military housing complex in Saudi Arabia's eastern province, despite a Saudi statement last week that foreign terrorists were not involved.

Saudi Arabia's interior minister, Prince Nayef bin Abdul-Aziz, said on Friday that "Saudi hands" were responsible for the bombing

of the Al-Khobar military housing complex which killed 19 US soldiers.

"No foreign party had any role in it," he told Kuwait's newspaper Al Ra'i al-Aam. However, he gave no hint as to who was behind the attack, nor whether the Saudi government had arrested those responsible.

Iran has denied complicity in the attack, which the Saudi government initially blamed on Shia extremists, co-religionists of Iran who

make up 40 per cent of the 3m population in the Saudi Eastern Province, and some 10 per cent of the total Saudi population of 12m.

According to senior US officials, US investigations are "on-going". A team from the Federal Bureau of Investigation went to Lebanon earlier this month to track a possible connection between the Al-Khobar bombing and Lebanon's Iranian-backed Hezbollah.

According to senior US

officials, the Saudis are "bending over backwards" to avoid implicating Iran because they do not want to jeopardise relations, which have improved since President Mohammed Khatami was elected a year ago.

Officials say Saudi Arabia also fears that US military retribution against Iran could destabilise the entire Gulf region.

US officials say that after nearly two years of investigations into the Al-Khobar

bombing, neither the US nor Saudi Arabia is any nearer to finding conclusive evidence as to who was responsible.

A November 1996 attack on a building in Riyadh, which killed five US advisers to the Saudi National Guard, was blamed on Saudi Sunni extremists who opposed the US military presence and accused the al-Saud ruling family of corruption. The US has some 5,000 military personnel in the kingdom.

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ASIA-PACIFIC

Suharto loyalists removed in top brass shake-up

By Owen Robinson in Jakarta

A weekend shake-up in the Indonesian armed forces abruptly removed key Suharto loyalists from strategic command positions, in a clear effort by General Wiranto, the military chief and defence minister, to dismantle the former president's hold on the military.

But the hasty withdrawal of one new appointment on Saturday prompted observers yesterday to question whether Gen Wiranto had consolidated his authority over the factionalised armed forces leadership.

Gen Wiranto himself rose to the top military position under Mr Suharto's patronage but played a big role in preparing his transfer of power to B.J. Habibie last week.

His reappointment by Mr Habibie was widely wel-

Japanese groups 'have \$11bn loans and credit guarantees in Indonesia'

Japanese trading companies have loans and credit guarantees worth \$11.5bn (\$1.1bn), according to a Japanese business newspaper, *Nikkei*, the exposure of trading companies has been a big factor behind their lower profits in the year to March.

The *Nikkei* newspaper reported yesterday that a study by the Ministry of International Trade and Industry (MITI) found that the total exposure of nine Japanese trading companies to Indonesia came to \$11.5bn in

trade credits, loans and loan guarantees.

This is equivalent to the known value of the exposure of eight Japanese banks to the country, according to the *Nikkei*. The exposure of trading companies has been a big factor behind their lower profits in the year to March.

Their exposure to long-term projects, such as electric power generation and chemical plants, raises the prospect that profits in the current year will continue

to be undermined. Many of these projects are expected to be frozen for a year or two. There is an additional risk that loans to such projects could become difficult to recover.

The ministry has set up a special unit to monitor the exposure of Japanese businesses in Indonesia.

According to the *Nikkei*, MITI carried out a study of Japan's major trading companies to assess their exposure to Indonesia at the end of the

financial year in March. MITI officials involved in the study were not available for comment yesterday.

Of the medium to long-term credits, about 20 per cent involve investments in projects, such as the \$1.5bn Chandra Arel chemicals plant in which Mitsubishi has a stake, the *Nikkei* reported.

The remaining 80 per cent comprises an equal amount of loans and loan guarantees, according to the report.

would also replace Maj Gen Muchdi Purwopranjono, commander of Kopassus, the army's crack special forces unit. US State Department officials have said privately that they believed Kopassus, headed by Gen Prabowo until March, had been responsible for the kidnapping and torturing of political activists.

In what is likely to develop into a military purge of Suharto loyalists, at least three other senior commanders are likely to be removed from their positions in the coming weeks, observers said.

But the officer appointed to replace Gen Prabowo as Kopassus chief was withdrawn after only 18 hours in office. Maj Gen Johnny Lumintang, who took over the Kopassus command from Gen Prabowo on Friday, was replaced on Saturday by Maj

Gen Djamarri Chaniago, a regional commander in West Java. The hasty replacement of Gen Lumintang, one of the few Christians in the armed forces' mostly Moslem senior command, was reportedly due to last-minute opposition from other senior commanders.

The removal of Gen Prabowo came ahead of today's expected results from an inquiry into the fatal shooting of six student demonstrators by soldiers at a university in Jakarta on May 12. The shootings touched off violent protests and fuelled public anger at Mr Suharto. The investigation is likely to implicate officers under Gen Prabowo. The speed of the investigation and the implied promise that the officers will be identified and punished is another sign that Gen Wiranto is in control, diplomats said.

Japan's postal savings system faces loss

By Gillian Tett in Tokyo

Japan's vast state-owned postal savings system will probably fall into loss this year because of the recent slump in long-term interest rates, government officials have warned. The deficit has emerged because the low rates have created a mismatch in the postal system's financial portfolio.

Hirosaki Matsui, deputy director general of the Postal Savings Bureau, said: "Starting with fiscal 1998, we think we will record a deficit in our account for a year or two."

The likely deficit at the bureau is a sharp contrast to the situation earlier this decade. In fiscal 1995 and 1996 the bureau recorded profits of ¥1,184bn and ¥1,418bn (\$8.3bn and \$10.4bn) respectively. The postal savings system has around ¥250,000bn in deposits, and is almost as large as the top private banks.

Mr Matsui envisages a surplus of "several hundreds of billions of yen" for fiscal 1997 when the results are published this summer.

The looming deficit illustrates the structural problems in Japan's huge public financial institutions as the economy stagnates and Big Bang deregulation gets under way.

The key reason for the bureau's problems is that it is forced to give most of the money it receives from depositors to the ministry of finance. The ministry then manages these funds by investing them in a scheme known as the Fiscal Investment and Loan Programme (FILP), which also manages

'At the moment the future cost to taxpayers is not necessarily clear'

public pension money. FILP spends most of the estimated ¥400,000bn it currently controls on public infrastructure projects or Japanese government bonds. This is equivalent to about two-thirds of the size of the official government budget.

When the economy was booming, yields on FILP investments rose towards 8 per cent. But in recent years the yield has slumped towards 2 per cent, partly because long-term interest rates have fallen sharply.

The Postal Savings Bureau has tried to respond to the falling revenues by cutting the interest. It pays on long-term savings accounts to 0.35 per cent. But short-term interest rates have not dropped as sharply as long-term rates. Consequently, this year revenues will not keep pace with liabilities.

"When the yield curve is steep we enjoy high interest margins. But now we have a mismatch of liabilities," said Mr Matsui, who predicted that the bureau would return to profit after "one or two years".

These problems are generating growing alarm among some western observers. David Asher and Andrew Smithers, two UK economists, for example, concluded from recent research that the FILP programme was highly wasteful and held huge bad debts. "Without comprehensive reform the collapse of the FILP house of cards could occur as soon as the dawn of the 21st century," they warned.

However, ministry officials denied that FILP had large losses and pointed out that reform was under way. "The government has recently decided, for example, that around the year 2001 the Postal Savings Bureau will cease giving money to FILP. Instead the bureau will manage the funds itself and try to earn higher returns."

Efforts are also under way to improve FILP's accounting system by introducing "future cost" analysis to measure future losses more accurately. As a senior ministry official said: "At the moment the future cost to taxpayers is not necessarily clear and so we would like to introduce future cash flow analysis of the sort introduced in the US in the mid 1990s."

Zhu hits opposition over cuts in staff

By James Kyong in Beijing

Zhu Rongji, China's premier, has run into opposition over his plan to cut the central government's bureaucracy by half by the end of the year, officials said.

Some ministers have parried Mr Zhu's demands to cut staff numbers by arguing their ministry is already overworked, officials in several ministries said.

The plan to streamline China's bloated bureaucracy is a key plank in Mr Zhu's reform programme.

If the initiative founders, Mr Zhu's reputation would be damaged. This could embolden a conservative minority uncomfortable with the speed at which loss-making state enterprises are being privatised, causing a surge in unemployment, commentators said.

Some of the strongest resistance to Mr Zhu has come from Wu Jichuan, the powerful head of the newly created ministry of information industry, officials said. Mr Wu's task has been complicated by the need to appear even-handed in awarding important posts to former members of the ministry of electronic industry and the ministry of radio, film and television, which merged with his own ministry of posts and telecommunications in March.

Mr Wu has sought to bargain with Mr Zhu over the staff numbers he must cut. But the premier has rejected his appeals and set a deadline of May 31 by which most ministries must report on the extent of their proposed cuts, planned new management structures within their ministries and the names of officials in key positions.

"There is no doubt that Mr Zhu has had the upper hand," said one official, who declined to be identified.

The foreign ministry has been told to cut 40 per cent of its number, officials said. But most of this downsizing was likely to come from among support staff in consulates, garages, maintenance and other areas. It was unlikely Chinese embassies overseas would have to cut personnel.

Officials said although ministries set targets for cuts by May 31, they do not need to be carried out until the end of the year. By then it is hoped jobs can be found for those who are to go. Executives from several foreign companies in Beijing say they have been approached by ministry personnel seeking jobs.

Hong Kong poll registers big turnout

By Louise Lucas in Hong Kong

More than half of Hong Kong's registered voters cast their ballots in the first elections under Chinese rule yesterday, despite torrential rains which flooded seven of the polling stations.

Over 1.5m voters braved the downpours, representing a turnout of 53 per cent of registered electors for the seats decided by universal suffrage.

Analysts saw the healthy turnout as a vote of confidence in the much-maligned and complex voting system. It was sharply higher than the 35.5 per cent level in 1995 elections, which has been taken as the benchmark by the government to gauge the success of the current poll.

Early indications suggested a strong showing

by the pro-democracy camp, many of whom were ousted from the legislature after China resumed sovereignty over Hong Kong from the UK on July 1 last year.

Casting his vote, Martin Lee, leader of the Democratic party, hailed the elections as "the first step forward for my country, China, towards democracy".

The party's popularity remains high despite diminishing concerns over mainland interference and a perception that the Democrats, like the other parties, have an uninspiring platform on the issue closest to voters' hearts: the slowing economy and rising unemployment.

However, preservation of the rule of law, to which the Democrats are firmly wedded, is an issue of growing concern following a



Left: voters read about candidates at a polling station yesterday. Right: Tung Chee-hwa, Hong Kong's leader, casts his ballot.

series of cases suggesting preferential treatment of well connected individuals and bodies.

Mr Lee's party scored a landslide victory in the 1995 elections, when the Democratic party and pro-democracy allies secured 17 of the 30 universal suffrage seats. Latest indications suggest the Democratic party will secure at least half of those 20 seats this year.

However, the more limited

franchises electing the other 40 seats that make up the Legislative Council, or LegCo, will yield a stronger showing by pro-Beijing and - as in the past - pro-business members.

The so-called functional constituencies, which represent business and professional groupings, account for 30 of the seats. Just 230,000 people are eligible to vote for these seats, a fraction of the 2m enfranchised under the

reforms of the last governor, Chris Patten. The final 10 seats will be returned by an 800-strong election committee.

Voters do not have a say on their leader, Tung Chee-hwa, who was selected by a Beijing-appointed committee, or the administration. The LegCo is itself less of a law-making parliament than one which acts as a check on spending and law devised by the administration.

Clinton team searches for a Chinese village just like home

James Harding reports on efforts by US diplomats and officials planning the president's forthcoming trip to China to settle on an itinerary that will project the country's modernising face

The search is on for a village. But, then, with roughly 800,000 rural communities in China, the trick is picking the right one.

As US diplomats and Chinese government officials in Beijing and Shanghai buckle under the enormous planning process for the visit of Bill Clinton and the First Family next month, the White House has signalled interest in a trip to a village - a size of settlement which is home to most of China's 900m rural population.

Ideally, though, the stage managers of Mr Clinton's tour would like a place which shows China in what the US considers to be the best light: a village, which has held direct elections,

which has established township and village enterprises, which has started to allow people to buy their own homes and which has engaged in environmental protection efforts.

The White House wish-list for a model village underlines one of the US administration's chief priorities for the June trip: to relay back home the message of US presidential support for a modernising China, where personal freedoms, prosperity and a sense of global responsibility are taking root.

When Chinese president Jiang Zemin visited the US last October, he toured the country and, in a visit being scrutinised for any possible breach of protocol, Mr Clinton

is therefore expected to do the same when he comes to China. So far, all that is decided is that the US president will definitely visit Beijing and Shanghai.

Diplomats said he was also likely to go to Xian, home of the famous terracotta soldiers, as well as Guilin, which boasts some of China's most spectacular natural scenery.

Chengdu, the capital of Sichuan province in the west, is making a last-ditch bid for a Clinton stopover.

Also undecided are the participants of the Clinton tour.

The president's wife, Hillary, is expected to come and many people in China expect the presidential couple to be accompanied by

their daughter, Chelsea. Madeleine Albright, secretary of state, will also accompany them.

One of the White House's advance parties (in official jargon, a "pre-advance" team) arrived in China this month to start formal consideration of the president's programme.

President Clinton will start his visit in Beijing at the Great Hall of the People, China's parliament, which stands on the western edge of Tiananmen Square.

Mr Clinton is the first US president to visit China since the massacre at the square of pro-democracy campaigners in June 1989.

Most of his time in Beijing will be spent with Chinese state leaders, but the White House team is looking at other possible engagements, such as delivering a speech at Beijing University, which

celebrates its 100th anniversary this year.

The planning of the visit is consuming much of expatriate America's time in China. In the words of one American official, the presidential visit requires "all our resources, plus".

Delicate decisions include where the president might make a public address in Shanghai - a local university or the grand new trading floor of the Shanghai stock exchange, symbol of the city's ambitions of becoming a regional financial centre. There has been speculation on whether members of the presidential party will hold a meeting with the American Chamber of Commerce in either Shanghai or Beijing or even visit the operations of a big US investor, such as General Motors, which is building a \$1.5bn factory to make Buicks in Shanghai.

But there has been some caution about engagements with the US business community in China, reflecting American sensitivities about the perceived export of jobs and concerns about any show of favouritism to one US company over another.

One US-backed project likely to enjoy a visit from the Clintons is the Project Hope hospital in Shanghai, which has been supported by big donations from US companies. Another under discussion is also of American parentage: China's own version of Sesame Street, the classic US children's television programme, started broadcasting earlier this year in a co-production backed by General Electric.

Discussions are also under way for a meeting between one of the Clintons, possibly Chelsea, and the cast and children of the street, known in Chinese as "Zhimajie".

UK seeks pledges on power employees in Pakistan

By Farhan Bokhari in Islamabad

The British High Commission in Pakistan said yesterday that it would seek fresh assurances from local authorities to ensure the safety of British employees working at the Hub power station outside Karachi, the southern port city.

The spokesman added that

a blockade of the plant site by the local police had ended, following protests by the High Commission.

A number of businessmen had also criticised the move. Last week, the Pakistani police surrounded the 1,292MW thermal power plant, and stopped all of its 28 British staff and their nine spouses from leaving the site. The

company's owners including British National Power.

No clear explanation has been given by local authorities, though businessmen say the action was probably driven by the government's determination to get tough with Pakistan's 21 private power producers.

The government said the power companies, including

Hub Power Company (Hubeo), were promised high tariffs by the former govern-

ment of Benazir Bhutto, who announced a new power generation policy in 1994 to attract fresh investments.

Under that policy, the state-run Water and Power Development Authority (Wapda) is obliged to buy at least 60 per cent of the elec-

tricity generated by each power plant.

Last week, the provincial high court at Lahore, Pakistan's second largest city, ruled that Hubeo's tariff of 7 US cents per kilowatt hour should be cut by more than

half to 3 US cents. Hubeo is understood to be preparing an appeal against the verdict. Privately, its manage-

ment said that the company would not be profitable if it was to accept the new rates.

The police action against the Hub power site has so far been the toughest official measure to step up the pressure. Privately, businessmen say that it is likely to hurt investor confidence both on portfolio and direct investments into Pakistan.

THAI CONSTITUTIONAL COURT SWIFT RULING PAVES WAY FOR DECREES TO HELP RESTORE LIQUIDITY TO ECONOMY

Government backed on parliamentary vote

By Tui Bartoszek in Bangkok

Thailand's newly established Constitutional Court made a crucial decision in favour of the government at the weekend, allowing parliament to vote today on four emergency decrees designed to help restore liquidity to the Thai economy and keep the country's agreement with the International Monetary Fund on track.

The decrees would allow the government to borrow overseas and domestically to lend to strategic sectors of the economy and restructure the Bt1,000bn (\$23.5bn) in liabilities of the central bank's bailout fund

for financial institutions. That fund would double in size every five years if not restructured, Thai finance ministry officials said.

The decrees would also allow for easier disposal of Bt800bn in assets of 56 finance companies that were closed last year.

The first auction of core assets of those companies is in less than two weeks and officials feared the auction would have to be delayed if the decrees were not passed.

In addition, Thailand's cabinet is expected to approve the country's next stage of its agreement with the IMF tomorrow.

Approval is not possible without the decrees, which

were a condition of the latest instalment of the fund's programme.

Passage of the decrees had been a near-certainty in a special session of parliament on Thursday of last week but the opposition, which as the government last year ran up the costs which the current government has to deal with, opposed the decrees on the grounds that they would shift the burden of financial sector bailout to taxpayers.

They submitted a motion challenging the definition of an "emergency", and sought to have the decrees declared unconstitutional.

The swift ruling by the Constitutional Court was a

victory for the government of Chuan Leekpai, but also exposed its vulnerability. Its slim margin in parliament allowed the opposition motion to be submitted and accepted.

The attacks on the government for "bailing out the rich" also took some lustre off Mr Chuan's generally popular government.

Meanwhile there was intense lobbying while the decrees were being considered to woo key coalition member Chat Thai over to the opposition.

This move would have resulted in a new government led by former prime minister Banharn Silpa-archa.



Chuan Leekpai ruling by Constitutional Court was a victory for his government

BusinessWeek

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Microsoft bonanza for lawyers

Richard Wolffe and Louise Kehoe report on the rich pickings for law firms and lobbyists

The hearing lasted little more than an hour, but it represented the start of almost a lifetime's earnings for lawyers and lobbyists alike in Washington.

As Microsoft and the US government - plus 20 states - faced each other in court for the first time in their landmark antitrust battle last week, at least 14 attorneys sat in front of Judge Thomas Penfield Jackson. Behind them - at the head offices of Microsoft, the Justice Department and state attorneys general - hundreds of lawyers, consultants and strategists were preparing for the biggest antitrust action in two decades.

The case is turning into the "PR and Law Relief Act," joked one of the people involved in the lobbying efforts.

The states alone have 20

attorneys assigned full-time to the case. For its part, the Justice Department has hired David Boies, a leading trial lawyer, to lead its courtroom battle. Mr Boies has reportedly halved his usual fee of \$550 an hour to handle the high-profile case.

To the outside world, the case may seem to revolve around the struggle between Microsoft, the world's largest software company, and Netscape Communications, its rival in internet software. But to Washington, the case looks rather different.

"Netscape is the direct beneficiary of this case, but the indirect and real beneficiaries are the lawyers and I am one of them," said Charles "Rick" Rule, a consultant to Microsoft and a former head of the antitrust division under the Reagan administration. "When I was at the Justice Department, we wanted to make the law clear so that businessmen and women in this country could understand it without having lawyers like me being paid inordinate amounts to explain the law."

"Antitrust lawyers want

out of business and into other things like environmental law. But when this case was launched, around town you could hear the champagne corks popping from all the law offices and antitrust lawyers."

Microsoft has boosted its in-house legal team to more than 100 lawyers at head office, according to Brad Smith, general counsel for the company.

Outside Seattle, it has also been quick to boost its representation in Washington over the last two years. "We have been active in Washington DC on software issues like encryption," said Mr Smith. "But we have not been as active as we might have been in talking just about Microsoft. Instead we have been talking about the benefits of the software industry as a whole."

According to the non-partisan Centre for Responsive Politics, Microsoft has substantially increased its political spending in Washington over the last three election cycles. In 1993-94, the company ranked eighth among computer companies, spend-

ing just \$106,484 on campaign funds and individual contributions.

In the current election year, it ranks top of the industry, almost tripling its donations to \$298,219. That compares well with Netscape Communications, which gave no money five years ago and spent just \$34,749 in the current election year.

Microsoft's political tactics are also remarkable within the industry. Oracle, the second largest donor, gave more than 90 per cent of its \$217,913 to the Democrats, just as Microsoft did in 1992.

Since then Microsoft has reversed political leanings. Two thirds of its current spending goes to Republicans, including \$99,000 of free computer software donated on March 31. While such figures may be small compared with the size and wealth of Microsoft, they do not include substantial recent donations such as the \$100,000 contribution to the Republican National Committee last month.

Bill Gates, chairman and chief executive of Microsoft, has personally donated cash



Haley Barbour (left) and Bob Dole: leaders among lobbyists

to just two senators. John McCain, the Republican chairman of the commerce committee, was flown to the west coast for a private demonstration of high-definition television, which Microsoft wants to supply with a compact version of its Windows operating software. The other senator, Patrick Leahy, is the senior Democrat on the judiciary committee, which staged the high-profile hearings into antitrust allegations against Microsoft earlier this year.

Both sides of the battle have been courting Republicans carefully. Microsoft has hired Haley Barbour, a former chairman of the Republican National Committee, as one of its lead lobbyists. Meanwhile, a coalition of its industry rivals - including Netscape and Sun Microsystems - have hired Bob Dole, the former presidential candidate, and Robert Bork, the former Republican judge.

Gateway to opportunities on the internet, Page 10

Ortega retains party post

By James Wilson in Managua

Daniel Ortega and Tomas Borge, the old guard of Nicaragua's Sandinista leadership, were re-elected over the weekend to posts at the head of the party, in a setback for reformers and an indication of the slow pace of change in the movement.

As expected, loyal *danista* delegates to a national congress of the Sandinista Front for National Liberation (FSLN) rallied round Mr Ortega, who has been buffeted in recent months by his stepdaughter's allegations that he sexually abused her. Mr Ortega received a rousing reception and was re-elected unopposed as the party's secretary-general.

But Mr Borge, one of the Sandinista's founding fathers, had to overcome a challenge from Victor Hugo Tinoco, the leader of the FSLN's grouping in the Nicaraguan national assembly, to remain as Mr Ortega's deputy. Mr Tinoco is seen as likely to press for change within the party, which has been out of power since 1990.

Mr Tinoco, who lost by 224 votes to 199, said afterwards: "Change will be a slow process and we have gone forward a significant amount."

There were times at the congress when little appeared to have changed in the two decades since the Sandinistas overthrew the country's Somoza dictatorship. Delegates wearing scarves in the party colours honoured their fighting heroes and broke into revolutionary song, while some of Mr Ortega's rhetoric was as fierce as ever.

But his call for dialogue with the government and a national accord, in the presence of senior government figures, was welcomed as a conciliatory sign. One international observer said: "They are leaving a window open. Compared with recent weeks and months, this is a rapprochement."

Checchi loses ground in California

By Christopher Parkes in Los Angeles

Al Checchi, the would-be governor of California who has spent almost \$40m on his preliminary campaign, has crashed in the popularity polls.

His aggression towards fellow Democrats seeking nomination in the June 2 primary has more than halved his support among likely voters, and left him trailing the field, according to samplings by the Los Angeles Times.

Only 10 per cent of those who consider themselves "likely voters" say they will support him next month, compared with his 22 per cent backing of a month ago.

The main beneficiaries of Mr Checchi's critical television commercials have been the Democrat underdog of a month ago, Gray Davis, and Dan Lungren, the leading Republican.

Mr Davis, second-in-command to governor Pete Wilson, has seen his support among likely voters climb from 13 per cent to 26 per cent, while Mr Lungren claims 37 per cent compared with 28 per cent last time.

The volatility of popular opinion has also been heightened this time by the introduction of the open primary system, under which voters - regardless of their party affiliation - may for the first time vote for any of the primary candidates.

However, polls suggest Mr Checchi's onslaught on his Democrat competitors has rebounded on him in the past few weeks, especially since Mr Davis has increased his spending on television commercials.

Mr Davis has spent about \$7m of donated money compared with Mr Checchi's record-breaking tally from his own resources. Mr Lungren, attorney-general, who also relies on donors, has \$2.4m left in his reserves after spending \$4.6m so far.

Posthumous revenge on Dominican Republic's political leaders

Electors deal a blow to remaining party chiefs after the death of José Francisco Peña Gómez. Canute James reports

He is not around to celebrate, but the late José Francisco Peña Gómez has taken costly revenge on two of the Dominican Republic's leading politicians who conspired to keep him out of the presidential palace.

Official results on Friday showed that the social democrat Revolutionary party of Mr Peña Gómez, who died a fortnight ago from cancer, had handsomely won legislative and municipal elections and taken control of Congress and most municipalities.

The result is a setback for President Leonel Fernández's centrist Liberation party, which came a distant second, leaving him short of the seats he needs to veto congressional decisions. The conservative Social Christian Reform party of Joaquín Balaguer, a nonagenarian

former president, was third, suggesting an end to his 30 years of influence on Dominican politics, and to his reported plans to stand for the presidency in 2000.

Two years ago Mr Peña Gómez appeared on the verge of success in his third bid for the presidency of the Caribbean state of 8m people which shares the island of Hispaniola with Haiti.

In the first round of voting, he came out ahead of Mr Fernández, with the candidate of Mr Balaguer's party third. Claiming that Mr Peña Gómez was "not representative of the Dominican people", Mr Balaguer threw his support behind Mr Fernández in the second round, and successfully kept Mr Peña Gómez out of office. International observers concluded that extensive fraud contributed to earlier elec-

tions which Mr Peña Gómez lost to Mr Balaguer.

With their support lifted by a tide of sympathy votes, Revolutionary party legislators will present a serious obstacle to President Fernández's efforts to "modernise" the country through a series of constitutional and economic reforms. He has been trying to increase the role of private business in the economy, and to privatise unprofitable state enterprises, particularly the power company, which has been unable to supply adequate electricity.

The president also wants to lower import tariffs and

increase sales taxes. He may be able to make some progress if he can fashion alliances in Congress with legislators willing to support some of these changes.

But he faces a more intrac-

His party has handsomely won legislative and municipal elections

table problem in his efforts to amend the constitution to allow presidents to have a second consecutive term. The performance of his party this month may have damped his enthusiasm for such a change.

Mr Fernández has taken a philosophical attitude. "The elections contribute to the promotion of a more diverse political leadership in the sense that now the congres-

sional candidates are not tied to the presidential candidates," he said.

There was a more prosaic interpretation by Hatuey De Camps, secretary general of the Revolutionary party. "This was a victory in homage to the memory of José Francisco Peña Gómez."

In the remaining two years of his term, the president will be trying to maintain the relatively robust growth in the Dominican economy, which expanded 8.2 per cent last year, following expansion of 7.3 per cent in 1996. Last year's performance was the best for the economy in the 1990s, said the central bank.

Growth in construction, tourism, telecoms, and exports from free trade zones should expand by up to 7 per cent a year over the next three years, said John Pan-

zer, a senior World Bank economist responsible for the Dominican Republic.

"The key to the future growth is the success of efforts to open up the economy, and there have been positive signs with the recent trade treaty between the Dominican Republic and five Central American countries," Mr Panzer said.

"Despite the structure of the new Congress the country is not troubled by differing ideological positions, so there is no question about the direction in which it should be going. If the reforms the president seeks are implemented, the economy could grow by between 8 and 9 per cent a year."

This will be of some comfort to President Fernández as he tries to emerge from Mr Peña Gómez's shadow.

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BRITAIN AND IRELAND

POWER SHARING JUNE 25 POLL WILL DETERMINE COMPOSITION OF THE NEW FORUM

Battle starts for seats in new assembly

By John Murray Brown and Jimmy Burns in Belfast

Today will see the launch of what promises to be the most hotly contested election campaign in Northern Ireland's history as unionists and nationalists - for and against the agreement - battle for seats in a new power sharing assembly.

The results of the poll on June 25 will be critical and will determine not just the composition of the new assembly but party strengths in the new Northern Ireland executive, which will be composed of a chief executive - effectively a

Northern Ireland prime minister - a deputy and 10 officers.

Predictions are hard to make. The election will be by a system of proportional representation, based on the 18 existing constituencies, each returning six members - 108 in total, 48 more than Wales and 21 fewer than the new Scottish parliament.

The model will require voters to indicate their first choice and any number of preferences - a system familiar to voters in the Irish Republic.

The expected split in the executive is six unionist and six nationalist. But within

those traditional blocks, there is likely to be fierce competition. There are suggestions of vote transfers across the traditional sectarian divide - an unprecedented development and a further spin-off from Friday's historic referendum vote, which for the first time saw Roman Catholics and Protestants voting on the same side.

Many of the 71 per cent of voters who supported the agreement on Friday would probably not have turned out in a normal election and they may be hard to mobilise again. On the other hand, some of the 29 per cent who

sided with Ian Paisley's hardline Democratic Unionists in the No camp may have done so because of concern about issues such as prisoner releases.

They may have misgivings about voting for DUP candidates in the assembly elections. A vote for Bob McCartney's UK Unionist party, the other main No grouping, would be wasted in most constituencies.

Some recent opinion polls suggest the SDLP, arguably the main architect of the agreement, may stem the fall in its share of the nationalist vote in this election. In the 1992 election, the SDLP took

around 70 per cent of the nationalist vote. That slipped to 60 per cent in the 1997 general election and 55 per cent in the subsequent local government elections.

However, some detect an element of defensiveness in the suggestion from Sinn Féin, the political wing of the Irish Republican Army, of an electoral pact with the SDLP in the assembly elections. For a party which has made a virtue of taking the political route - and has seen its electoral support dramatically increase - any fall in its share of the vote would be difficult to explain to hardliners.

The referendum result throws little light on the likely outcome of the assembly elections, although Sydney Elliott, an expert on electoral models, and lecturer at Queen's University in Belfast, has extrapolated the results of elections to project likely party strengths.

His analysis gives the Ulster Unionists 39, the Social Democratic and Labour party 24, Sinn Féin 16, the Democratic Unionists 16, the cross-community Alliance party nine, with the UK Unionists of Bob McCartney and the loyalist Progressive Unionists two each.

PARAMILITARIES

Extremists will find process hard to disrupt

By Jimmy Burns

For extremists bent on violence, the huge majority for a peaceful settlement in the referendum north and south of the Irish border counts for nothing. But as long as the leadership of the Irish Republican Army maintains its ceasefire, they will find it difficult to disrupt the political process.

While insisting there was no room for complacency, security officials on both sides of the border were sanguine about the short-term threat yesterday after frustrating a small number of terrorist actions over the weekend. The latest incident was a bomb threat yesterday afternoon in the city of Armagh, only hours after a security alert near Lurgan, where police came across a small bomb on the railway.

Twenty-four hours earlier - while some former paramilitaries were declaring the "war" over after backing the successful Yes campaign - police in the Irish republic intercepted two cars on their way north near the border town of Dundalk. They were carrying equipment to make enough bombs to cause considerable destruction. Other incidents included a home-made device on a railway track near Belfast, the Northern Ireland capital, on Saturday.

The bulk of incidents are believed to be the work of dissident republicans opposed to the Good Friday agreement.

The Loyalist Volunteer Force - which unlike the bigger Ulster Volunteer Force is opposed to the settlement - declared a ceasefire during the referendum

campaign. The move was thought to be partly tactical as the UVF leadership is thought to be reluctant to be left out of the planned release of prisoners. The government has said that those not abiding by the ceasefire will not be released under the agreement.

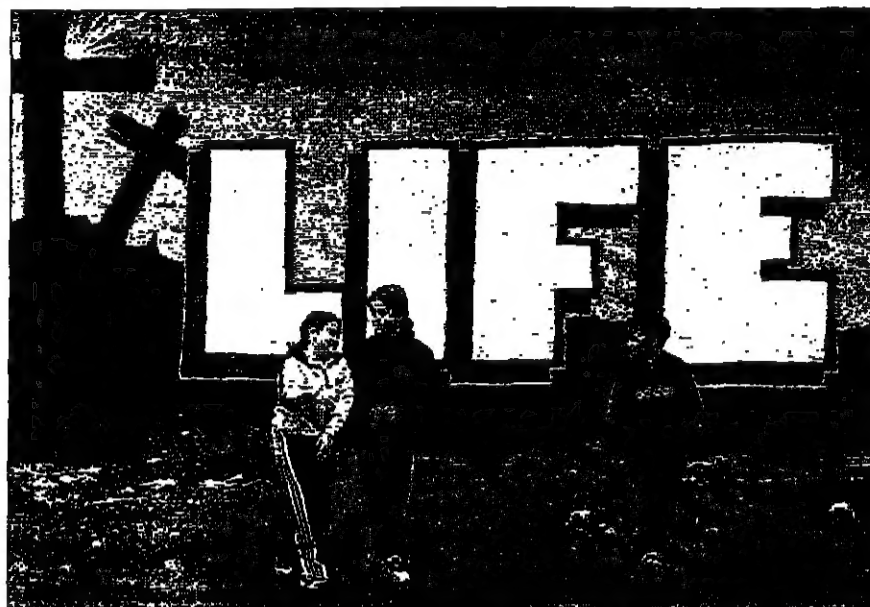
Within republican ranks, the issue of prisoners is also regarded as critical. But dissidents are focusing on a strategy of military opposition to the overall settlement because they believe it consolidates partition and postpones the republican ideal of a united Ireland.

Irish officials believe this view is not shared by a majority in Sinn Féin, the political wing of the IRA, or the IRA's controlling army council, which explains why the ceasefire has been maintained.

Republicans backing the Good Friday agreement see it as a "transitional" stage to a united Ireland. Despite the renunciation of the republic's territorial claim to Northern Ireland their interpretation is that both referendum results have unlocked a political dynamic which in the long term will lead to a united Ireland.

Sinn Féin officials suggested that they and the IRA will remain on the peace train as long as it delivers on an agenda which includes equality and demilitarisation involving the Royal Ulster Constabulary (the Northern Ireland police force) and the British Army.

But this has brought little comfort to security officials and unionists seeking clearer signs that the IRA is ready to hand over its weapons and renounce violence.



Faces of the future: children play in Belfast, the Northern Ireland capital, yesterday

Reuters

THE 'NO' CAMPAIGN

'Dinosaur' unionist refuses to admit defeat

By Jimmy Burns

"Go home dinosaur", chanted exuberant supporters of the Yes campaign as the Reverend Ian Paisley, Northern Ireland's most prominent, hardline, pro-British unionist, was jostled ignominiously out of the results centre at Belfast's King's Hall on Saturday.

Mr Paisley, leader of the Democratic Unionist party, was in no mood to concede defeat, claiming the 28 per cent vote for the No campaign showed the majority of unionists had not consented to the Good Friday agreement.

Aides of David Trimble, the Ulster Unionist party leader, disputed this, but conceded the referendum had left unionism divided, with Mr Paisley, the old bruiser of sectarian politics, raring for another battle. Mr Paisley insists he is not out

to wreck the forthcoming assembly. Nevertheless, he is endeavouring to do so by promising to oppose within it any political and constitutional change envisaged in the Good Friday settlement.

No-one should underestimate Mr Paisley's ability to light an emotional fuse within the unionist community, which has a natural distrust of political complexity and sophistication.

At Mr Paisley's Martyrs Memorial Free Presbyterian Church in Belfast yesterday, there was no doubting the defiance of the faithful as they turned up for the service. "We believe that God is on our side no matter what Mr Trimble might say. We're going to keep on fighting," said Herbert Robb, a loyal Paisleyite.

Nevertheless, the days when Mr Paisley could bring thousands of demonstrators on to the streets have gone.

His support in recent elections has dipped, and some of his supporters have turned instead towards the pro-British political groupings set up by former prisoners.

Following the referendum, the tactical alliance among unionists against the settlement is coming under strain as Ulster Unionist MPs opposed to the settlement, such as Jeffrey Donaldson, undertake to accept the decision of the majority of the people of Northern Ireland. Mr Donaldson said he would play a "constructive role" in helping to lead Northern Ireland into the future.

The conciliatory tone was echoed by another No campaigner, Arlene Foster, the DUP's honorary secretary. "Now that democracy has spoken it is up to the Ulster Unionists to work together behind David Trimble," she said.

LEGISLATION

Bills to be published prior to elections

By David Wighton, Political Correspondent

The UK government plans to publish all the legislation required to implement the Northern Ireland agreement before elections to the proposed assembly on June 25 in an effort to bolster support for David Trimble, leader of the pro-British Ulster Unionists, the biggest party in the region.

Tony Blair, the UK prime minister, has also urged ministers from all departments to visit Northern Ireland to underline the government's commitment to the "normalisation" of politics there.

Mr Blair, who will visit within the next few days, wants to persuade unionist voters in the assembly elections to back candidates committed to making the agreement work.

Mo Mowlam, the chief Northern Ireland minister in the UK government, said she hoped the electorate would back candidates who supported the agreement. But ministers have been told to avoid any impression of supporting particular candidates, which may prove counter-productive, if not illegal.

The UK's opposition Conservatives have also ruled out supporting specific candidates. But Andrew Mackay, their Northern Ireland spokesman, said he hoped voters would back Yes candidates or "responsible" members of the No campaign committed to making the agreement work.

Mr Blair sought to reassure wavering unionists in the run-up to the referendum by pledging that safeguards in the agreement would be enshrined in the legislation.

Mr Blair's office confirmed that the government was hoping to publish all the legislation before the elections.

However, the difficulty of the task facing ministers was underlined by comments from leading Northern Ireland politicians. Martin Smyth, one of the Ulster Unionist MPs who backed a No vote, said Mr Blair was committed to ensuring that the legislation would not allow politicians even indirectly associated with paramilitaries to take positions in the assembly's executive without decommissioning weapons. Gerry Adams, leader of Sinn Féin, political wing of the Irish Republican Army, said there must be "no pre-conditions" for the party's involvement in the assembly.

IRISH REPUBLIC

Historic consensus paves way for change

By John Murray Brown

The referendum in Northern Ireland stirred deep divisions. But there was an unusual consensus south of the border, where all the main parties backed the deal and the constitutional changes, with the result that the proposals were approved by a staggering 84.4 per cent of those who voted.

The luck of debate on the deal probably explains the turnout, which at about 58 per cent was lower than in Northern Ireland and less than in recent referendums on divorce and abortion.

The outcome is, nonetheless, a triumph for Bertie Ahern, the Fianna Fáil prime minister, who after displaying little interest in "the northern question" for much of his political career has shown a sure hand and even won the begrudging admiration of many unionists for his even-handedness in the negotiations.

Fianna Fáil, which describes itself officially as "the republican party", is probably the only party with the authority to drop the claim to Northern Ireland contained in the 1937 constitution. This was drafted by

Eamon de Valera, the party's founder, who led republican opposition to the partition of Ireland in the 1920s.

If the other main Irish party, Fine Gael, had been in power, it might have found it difficult to ignore sniping from Fianna Fáil MPs on the opposition benches. Fine Gael is descended from the republican forces who accepted partition.

Maurice Manning, the historian and Irish senator, has pointed out that this is the first time that Fianna Fáil and Fine Gael - which were on opposite sides in a civil war after partition - have

agreed on Northern Ireland. As a result, the sterile divisions of the past - with Fianna Fáil being more inclined to support Sinn Féin while Fine Gael has been more sympathetic to unionists - may soon be a thing of the past.

The wider implications for British-Irish relations are considerable. The deal paves the way for a British Irish council - encompassing representatives from the Dail - the Republic's parliament - the new northern assembly, Westminster and the devolved parliaments of Wales and Scotland.

There are likely to be some rocky patches. Dublin is particularly anxious Tony Blair's support for the Ulster Unionists during the referendum campaign does not mean the UK prime minister will allow himself to be bamboozled on legislation providing for decommissioning of terrorist weapons and the conditions for Sinn Féin's participation in the Northern Ireland executive.

However, the successful endorsement of Good Friday's agreement marks a new high in relations between Ireland and its former British colonial master.

Scottish calls for independence that refuse to go away

In spite of Labour's commitment to a regional assembly, nationalism north of the English border is on the rise, says James Buxton

An Edinburgh financier recently opened a dinner-party conversation by saying how delighted he was with Scottish politics. The cause of his pleasure was that the Scottish National party was ahead of Labour in opinion polls of voting intentions for the Scottish parliament. It meant, he said, Scotland might soon be independent.

It is rare for senior Scottish businesspeople to say they back the SNP and independence, but the numbers doing so are rising. Brian Souter, chairman of Stagecoach, the transport company, has not denied reports that he is an SNP supporter.

However most of his colleagues view the rise of the nationalists with intense anxiety, though tinged with some amusement at the discomfiture of Labour, which had claimed that its support for a regional assembly would see off the nationalist party for a generation.

The opinion polls paint an alarming picture for the government. The numbers say they would vote SNP in the first elections for the Scottish parliament, fixed for May next year, have risen remorselessly for six months. The most recent poll put support for the SNP at 41 per cent against 36 per cent for Labour.

That may not necessarily translate into a majority for the SNP in the assembly because Labour would do well in the larger number of seats elected under the first-past-the-post system, while the SNP's gains would be among the smaller number of regional seats elected by proportional representation. But at the very least the SNP looks set to be a powerful force in the parliament.

However, a poll this week in The Herald newspaper, published in Glasgow, showed 34 per cent of those asked supported independence, roughly the same level as for the past decade. It also found 40 per cent of SNP supporters wanted Scotland to stay in the UK.

Even so, ministers are baffled that they are so unpopular in Scotland when they

are delivering the Scottish parliament most Scots want. Part of the problem is that the energies of Donald Dewar, chief minister for Scotland in the Labour government, have been consumed by the complexities of devolution, while with the executive (government) of the new parliament due to take over in a year's time, junior Scottish ministers have not had many eye-catching policies to present.

Alex Salmond, the SNP leader, is winning support from Scots disappointed that so little has changed under the Labour government: people in local government resent Gordon Brown, the chancellor of the exchequer, for sticking to the Conservatives' spending limits, while trade unionists are unhappy over union recognition.

In England these leftwing critics have nowhere to turn, but in Scotland they have the SNP, which describes itself as a moderate left-of-centre party campaigning for independence within the European Union. "The SNP appears to be speaking for Scotland," a disillusioned Labour supporter says, "whereas the government seems to be speaking for middle England."

Yet the SNP, all of whose members in the House of Commons sit for former Conservative seats, also presents itself as a party that supports enterprise. It favours lower corporation tax in an independent Scotland and big incentives for small companies. In the Scottish parliament it wants to keep business rates out of the hands of municipal author-

ities, and has even floated the idea of not levying the 3 pence income tax surcharge - the so-called "tartan tax".

In the words of the Edinburgh financier: "Alex Salmond's an economist and understands about business. I see him as a Scottish Tony Blair, a pragmatist who will keep the left under control."

That makes the SNP an elusive target for the government. But Labour will take heart from the poll suggesting a majority of Scots still reject the idea of a separate Scotland with its own armed forces and embassies. The poll will also encourage the idea put forward this week by John McAllister, a Labour MP, and some Liberal Democrats, that the government should hold a referendum on independence immediately the parliament opens.

NEWS DIGEST

ELECTRICITY SUPPLY

Power groups in call for end to demerger plans

Electricity supply companies will ask the government to throw out proposals put forward by the industry's regulator that would force them to split some of their businesses into separate companies.

The groups say the proposals would require them to introduce separate information technology, management and control systems that could cost at least £500m (£835m) - the equivalent of £20 on each domestic electricity bill.

The Electricity Association, representing the 14 English, Scottish and Welsh electricity supply companies, says it will write this week to John Batten, energy minister, asking him to reject the regulator's plan.

Regional electricity companies, as well as selling power to customers, also receive a fee for running the local network through which electricity is transmitted. The government has proposed that the supply and distribution businesses should be separated and operated under different licences. Andrew Taylor, London

DIGITAL TELEVISION

Channel 4 woos partners

Channel 4, one of the UK's two main terrestrial commercial television services, is holding talks with potential partners about a film service to be launched this year on digital television. It plans to set up a subscription film channel and is hoping that one or more high-profile media companies may become partners in the venture, possibly taking a stake.

Those thought to have been approached include British Sky Broadcasting, the satellite operator, British Digital Broadcasting, the pay-TV company owned by Carlton Communications and Granada Group, PolyGram, the music and film company that Seagram agreed to acquire at the end of last week, and UKTV, the joint venture between Viacom and the BBC. Cathy Newman, London

POLLUTION

Vehicles fail emissions tests

One in five vehicles on Britain's roads cannot meet the government's standards for exhaust emissions, according to the result of a compulsory testing scheme launched in selected towns at the start of this year.

The results have prompted the government to offer free vehicle exhaust tests to motorists in the seven towns which took part in the pilot programme and in Belfast, and to consider extending compulsory testing throughout the country.

This marks an intensification of the government's efforts to reduce vehicle emissions to meet internationally agreed targets. Charles Batchelor, London

LLOYD'S OF LONDON

Funding reforms approved

Lloyd's of London has approved controversial reforms that will speed up its transformation into an insurance market backed by permanent capital.

It is allowing underwriting agents to strike bilateral deals with independent capital providers when buying in control of the insurance syndicates they manage. The move may accelerate the decline of Names, individuals who have traditionally backed Lloyd's, because it will make it easier in annual capacity auctions to trade the right to support big chunks of business.

However, more far-reaching steps, such as imposing a time limit on future participation by Names, appear for the moment unlikely.

The latest reforms will allow underwriting agents to negotiate the purchase of syndicate capacity in parallel with the fortnightly auctions, of which there will be six this year beginning in July. A minimum of £250,000 (£417,500) of capacity will have to be traded in a bilateral deal, compared with £1,000 blocks in auctions. Christopher Adams, London

INTELLECTUAL PROPERTY

UK lags behind rest of Europe

UK companies lag behind their counterparts in the rest of Europe in managing intellectual property and patents, according to research published today.

Senior managers in the UK are less likely than those from the rest of Europe to understand the role of patents, operate corporate patent policies and run regular audits, according to the study of 360 European companies.

Throughout Europe, the study identified a large gap between the importance placed on patents in theory and the way they were managed in practice. "This can lead to massive patent litigation costs and wasted research and development expenditure - both potentially fatal not only to small and medium-sized enterprises but also large corporations," it said.

More than seven in 10 of the companies surveyed admitted they had wasted R & D expenditure through patent mismanagement. At some stage, they had embarked on R & D work without realising that the work under development was already protected by a competitor's patent. Eight out of 10 companies surveyed had been involved in patent litigation at some time. Vanessa Houlder, London

JAPANESE VISIT

Akihito arrives in Britain

Emperor Akihito of Japan arrives in Britain today, at the start of an official visit that is likely to be overshadowed by protests from British veterans of the second world war.

Both countries hope the visit will help cement diplomatic relations and bolster trade links. But Japanese embassy officials are braced for the awkward sight of war veterans turning their back on the emperor tomorrow as he travels down the Mall, in London, to Buckingham Palace.

The veterans are demanding a fuller apology for their treatment in prisoner of war camps than that offered last January by Ryutaro Hashimoto, the Japanese prime minister, as well as compensation.

But the Foreign Office has warned the veterans that no further concessions are likely from Tokyo, and has urged them to show respect to the emperor. George Parker, London Editorial Comment, Page 13

FRAUD

Investors bear cost of litigation

Investors have borne the brunt of a big increase in the cost of big fraud cases, according to a report out today.

Although the number of big fraud cases in the UK has fallen, the cost has risen, according to figures from KPMG Forensic Accounting.

There were 55 cases of fraud involving sums of more than £100,000 (£167,000) last year, costing a total of £120m.

Although the number of cases was down on the 74 recorded in the previous year, the cost of the frauds jumped by 217 per cent from £35m in 1996. The banking and financial sector suffered the most frauds last with 18 cases worth more than £100,000.

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Drain Germany

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INSIDE TRACK

PROFILE MARCEL OSPEL

Premier league player

The head of the soon-to-be merged SBC and UBS talks to William Hall and Clay Harris

If Marcel Ospel were running Basel's football club rather than Swiss Bank Corporation, the city's biggest bank, his reputation would be under serious pressure. His favourite football club, headed by an old school chum, is struggling to avoid relegation, whereas Mr Ospel, 48, is about to win promotion to the world's premier banking league as chief executive of the soon-to-be merged SBC and Union Bank of Switzerland.

The new UBS will be the world's fifth-biggest bank with a market capitalisation of \$70bn (\$42bn). It will rank number one in the highly profitable business of private banking, and will own the world's fourth-biggest institutional asset manager, its Warburg Dillon Read subsidiary is already Europe's premier investment bank and wants to rank among the world's top five truly international investment banks.

The merger has cleared all but one regulatory hurdle and is on course to be completed in June. "It is very important that we get US approval quickly, then we really can reap the benefits of an accelerated merger process," says Mr Ospel, against the background rumble of transatlantic merger wars passing his office in SBC's former headquarters, now its main Basel branch.

By 2002, the new UBS, with Mr Ospel at the helm, aims to have more than doubled its long-term average return on equity to between 15 per cent and 20 per cent.

The 25 per cent rise in UBS's share price since the merger was announced last December is testimony to the stock market's belief in Mr Ospel's ability to deliver on his promises.

Seven years ago it was a very different story. SBC was the weakest of the big three Swiss banks, its management record had been tarnished by its over-involvement in lending to Werner K. Rey, the fugitive Swiss financier, whose Omni empire collapsed with debts of SFr3bn (£1.2bn) in 1991.

The fact that SBC has rebounded and achieved a thinly disguised reverse takeover of UBS, Switzerland's biggest bank, is largely down to Mr Ospel. He has been running SBC for only two years but his role in its rejuvenation goes back much longer.

His first coup was the creeping acquisition of O'Connor, a young high-tech Chicago derivatives firm - a process that started in 1989 and was completed in 1994.

Mr Ospel had to persuade not only SBC's top management of the benefits of merging the unknown O'Connor with SBC's foreign exchange and money market activities, but also O'Connor's 23 partners that a future career in a Swiss bank need not be dull. He was certainly right on that score. Between 1990 and 1993, O'Connor helped to increase SBC's trading profits fivefold to SFr2.9bn. However, a year later they had dropped below SFr1bn. But by then O'Connor's derivatives wizards had become so integrated inside SBC that there was no turning back and today ex-O'Connor partners, such as David Solo, 33, and Andy Sciallano, 37, are members of Mr Ospel's inner circle.

Their rapid rise up the SBC hierarchy is one of the ways that Mr Ospel has transformed the culture of the smallest of the big three Swiss banks. Apart from Hans de Gier, a 53-year-old Dutchman heading Warburg Dillon Read, whose career at SBC has shadowed Mr Ospel's, almost all of his top management are outsiders. Rudi Bogzi, 50, the Italian head of private banking, is an ex-Chase Manhattan banker; Gary Brinson, 64, head of asset management, is a US multi-millionaire who sold his business for \$750m to SBC in 1988; Peter Wulff, the 40-year-old chief financial officer, is an ex-McKinsey management consultant; and Thomas Escher, 49, head of information technology, came from IBM two years ago.

Mr Ospel's other great skill is integrating new businesses. He has overseen four important moves since 1992: O'Connor, Brinson, S.G. Warburg and most recently Dillon Read. He has a reputation for speed and, as UBS's executives have found to their cost, he feels no need to share out jobs evenhandedly. As a result, the only area where the old UBS managers have any real power is in the one division that is never going to be a world-class business: domestic Swiss banking.

In an industry where ego play a big role in decision-making, Mr Ospel is remarkably unpretentious. SBC's bargain-basement takeover of S.G. Warburg, the former high-flying UK merchant bank that was left in the lurch after an ill-fated courtship with Morgan Stanley, was clinched because Warburg's prima donnas liked Mr Ospel. The fact that hardly any of them occupy positions of power in the new UBS speaks volumes about his ruthlessness.

Nevertheless, his record in building shareholder value at SBC is not quite as spotless as his well-oiled public relations machine portrays.



THE ESSENTIAL GUIDE TO MARCEL OSPSEL

Early life: born February 8, 1950, in working class district of Basel. Left school at 16, worked in private banks in Basel, Geneva and London, before returning to Basel's school of economics and business administration. Does not have same cachet as St Gallen university, but the Swiss are less snooty about these things than the British.

Career: joined Swiss Bank Corporation's central planning department in 1977. Sent to London as bond salesman, and then New York, where he was poached by Merrill Lynch in 1985. After two years SBC poached him back to head securities trading in Zurich and he has never looked

back. Chief executive since May 1996. Current life: much more international than previous SBC chief executives. Refuses outside directorships because of worries about conflicts of interest. May have damaged long-term chances of joining the great and the good by disbanding SBC's council of international advisers, a talking shop of global big-wigs headed by Sir David Scholey. Social life: kept under lock and key. Married (second) into a well-connected, old Basel family. Hobbies: modern painting, opera, golf and walking the dog. Only apparent vice is cigarettes. Lets off steam

once a year at 4am in early March when he is to be found dressed as a devil with flashing red horns and banging a drum with one of the more exotic casks in Basel's annual carnival. Long-term goals: hard to believe there will be two Swiss banks among the world's top 10 in the long term. The smart money remains on Mr Ospel winning the final place at the top table. But Lukas Mühlemann, 47, Credit Suisse's McKinsey-trained chief executive, could threaten Mr Ospel's image as Switzerland's most successful banker if he sticks around long enough.

SBC shareholders' funds on the eve of the merger are lower than they were at the start of the decade, explaining why its return on equity looks so much better than UBS's. Its investment banking division earned far less than UBS in 1997, even though it had more staff.

The return on assets under management of its much-vaunted Brinson fund management business was the lowest of the Swiss big three, and the profitability of its private banking operation lagged those of UBS.

That is history, however, and Mr Ospel and his team will be running the show when the merger gets the final go-ahead from the US authorities. Given Mr Ospel's record, most analysts believe that the SFr3.5bn of cost-savings will probably be squeezed out of the group

ahead of schedule. But cutting costs is the easy bit, and Mr Ospel has to demonstrate that he can grow the group's revenues.

"Our future is not as a bank," says Mr Ospel, clearly differentiating the new UBS from domestic rival Credit Suisse, which last year bought Winterthur, the Swiss insurer.

"We believe that banking and insurance will increasingly converge in a few select areas such as asset management and financial risk management where there are some synergies." Investment banking is the one area that urgently needs attention. Not only must Mr Ospel improve the profitability of UBS's second-biggest business, but he must also strengthen its position in North America where it lacks critical mass.



LUCY KELLAWAY

Steer clear of the morality minefield

Companies have a business responsibility to ensure family life works. Morality has nothing to do with it and neither should it

"Employers have a moral responsibility to ensure family life works." Discuss. On Thursday, childcare activists will descend on the Millbank Tower in London to debate this issue. No prizes for guessing which side most of them will be on. In the name of stakeholding, they will surely say that companies have a moral duty to their employees which, in turn, implies that they have some kind of moral duty to their families.

In real life, it is not like that at all. Companies exist to make money. They should be good to their employees because if they are not no one will want to work for them. They should offer family friendly policies for exactly the same reason. That is to say, most employers have a business responsibility to ensure family life works. If they employ people with families, but do not recognise their needs, then their competitors will and they will lose out.

Companies should also behave in a decent way to their workers not simply for the sake of it, but for the company's own reputation. Now that ethical business is the thing, any company that is seen to be doing anything even slightly wrong - which includes being hard on their staff - will shortly get a bad name, and that will not help them sell their products.

Morality has nothing to do with it, and neither should it. The idea that our employers have a moral interest in us or our families, is repugnant. We are grown-ups and we run our private lives as we see fit.

In any case, anyone who argues that employers have a moral interest in employees' childcare arrangements may find the argument coming back to bite them. If we allow companies to be morally responsible, then surely we should allow them to pick

their own morals. What happens if companies take the view that the best thing for children is to be brought up by their mothers? Then presumably the morally motivated employer would be excused if they never employed women with young children and discouraged new mothers from returning to work. The morality of bringing up children is a minefield for parents; companies would be well advised to steer clear.

Once upon a time everyone at Procter & Gamble wore blue suits. Now everyone wears casual dress. According to John Pepper, chief executive, the change shows a) that everyone at P&G is having a good time and b) that they are being themselves. Can he be serious? The idea that you have more fun in chinos than in a suit is bizarre, but the idea that P&G clones are somehow expressing their individuality by virtue of their almost identical leisure clothes is plain sad.

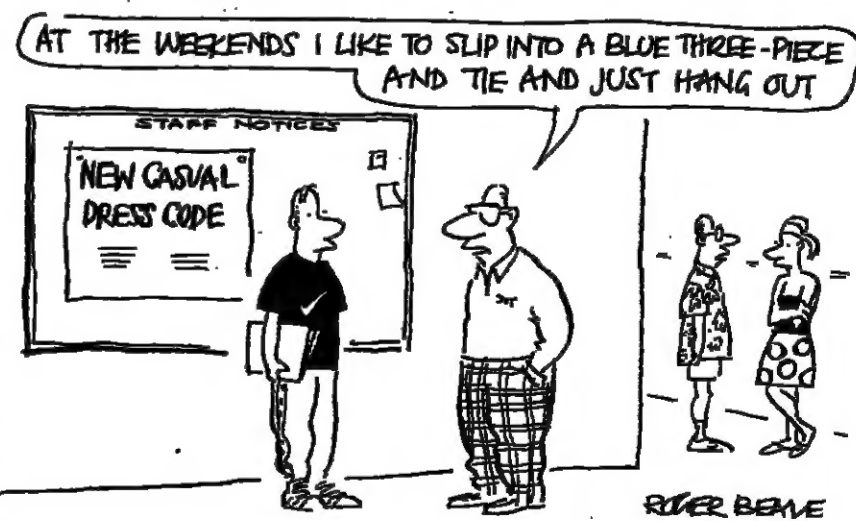
There is a lot to be said for casual clothes, but it has nothing to do with individuality or fun. It is simply that chinos are cheaper and don't require so much dry cleaning. You get up each morning, throw on your clothes and off you go.

Still on the subject of P&G, I have been reading *Beyond the Box*, an extraordinary volume written by another John at the top of P&G, John O'Keefe, group vice-president, has been spending all his spare time in hotels and aircraft writing this book to help us achieve "breakthrough results" both personally and at work. Our minds, he says, are brilliant cranial computers. The trouble is that we don't

know how to use them. Most of us can only do logical thought, whereas what we really need is triangular thinking. That means we must combine the elements of a step change, of building knowledge and using creative thinking. Apparently therein lies the secret to getting out of the box (which box, I wonder?); once we have mastered triangular thought we will be on the way to those breakthrough results.

Corporate America loves this book - that is if you believe that the glowing endorsements on all books these days offer any proof that the person in question has actually read it. "Wow!" gushes the chief executive of Burger King, while the chief executive of Saatchi and Saatchi says: "Great Sunday night reading... made me want to run into work!" I must say I am struggling a bit, and the tips offered by O'Keefe are not helping. "Take time to 'get on fire', to help charge yourself up so you will be able to break out of the box of incrementalism and aim for step-change goals," he recommends. I can see no smoke - my own personal cranial computer is just not up to it.

My award for most imaginative annual report this year goes to Agis, the media communications group. Four whole pages of its report are devoted to those trick pictures that appear to be elaborate patterns until you look at them cross-eyed, when a word suddenly leaps out of the page at you. Thus one page says "innovative", another "effective", a third "analysis" and so on. At least, I am told that is what they say - I have been staring for ages and still can't see any words at all. Agis is on to something here but has thrown the idea away by using it on those silly words. Next year they should do the same - but the hidden message should be the chief executive's salary.



BUSINESS TRAVEL FLYING

How to jettison fear

Farrol Kahn looks at the treatments available to fight aerophobia

A recent incident in which a businessman ran amok on a British Airways flight and had to be handcuffed, could be a case of drunkenness or of aerophobia, which can induce excessive drinking.

The passenger later revealed he was facing a divorce. What he was not aware of was that the enclosed cabin invokes a primary fear in us all.

Lutz Bergau, Lufthansa's medical director, illustrates this with an analogy of birds sitting on power lines normally equidistant from each other. "But when there's danger," he says, "they crowd close together out of fear."

On a crowded aircraft, passengers are put on the defensive because their private space is being invaded. They can smell the odours and feel the heat of strangers next to them. That produces a high degree of anxiety and may arouse aggression.

Some 60 per cent of passengers do not feel comfort-

able inflight, and out of these some can develop extreme fears. The worst cases involve panic attacks," says Dr Bergau. This physiological reaction goes hand-in-hand with psychological anxieties of being helpless.

Frequent flyers get accustomed to these anxieties and know how to cope with them.

But there are times when even seasoned flyers crack.

Flight attendants on Delta Air Lines are trained to recognise signs of aerophobia among business people to prevent incidents from getting out of hand. "There are four main symptoms," says Dave Campbell, general manager of the airline. "They are manifested when a passenger is short and curt, angry, withdrawn or drinking too much. Our job is to find out and turn them around."

Sometimes we can dispel their fears by mentioning that they took a greater risk by travelling to the airport than by flying. But generally, we relate to them. Ask

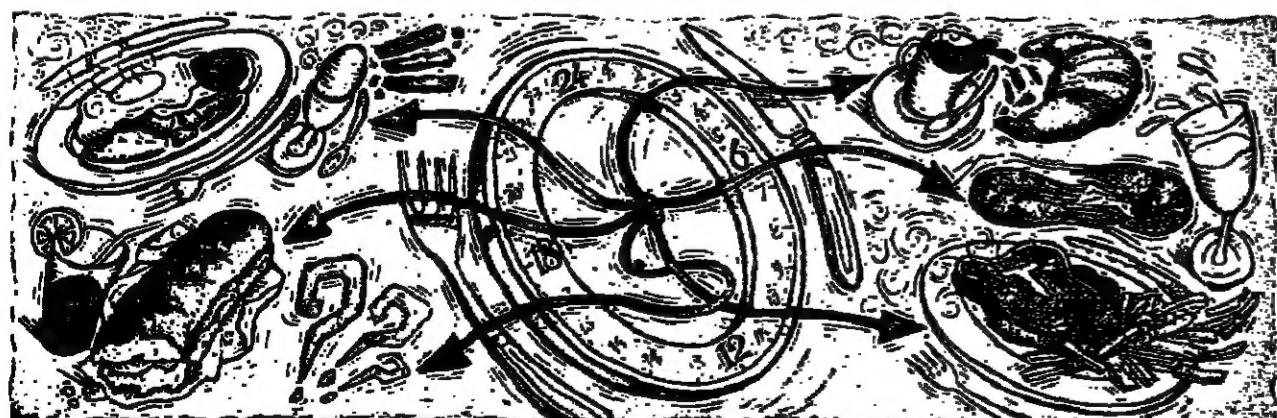
them about their family and children."

Clinically, aerophobia is complex, as about six types of distorted thinking have been identified. Claustrophobia, panic-related anxiety, space phobia or fear of being surrounded by nothingness, terror of crashing and of heights, and post-traumatic fears are all part of this perplexing condition.

When it comes to solutions, there are as numerous as there are flyers. A popular treatment is called cognitive behaviouralism. This approach involves confronting people with the unreasonable fears of their fears while exposing them to relaxation techniques.

The most promising treatment for aerophobia is Eye Movement Desensitisation and Reprocessing, which has been used for a decade to overcome anxieties, stress and depression. Through the movement of one's eyes from side to side, negative feelings can be dissipated.

The author is director of the Oxford-based Aviation Health Institute.



WHAT WOULD YOU LIKE FOR DINNER? BREAKFAST.

Sheraton and AT&T have joined forces to take care of the Business traveller's needs, both mental and physical. So we introduced Body Clock Cuisine in all of our airport hotels.

It's simple. If you feel like eggs

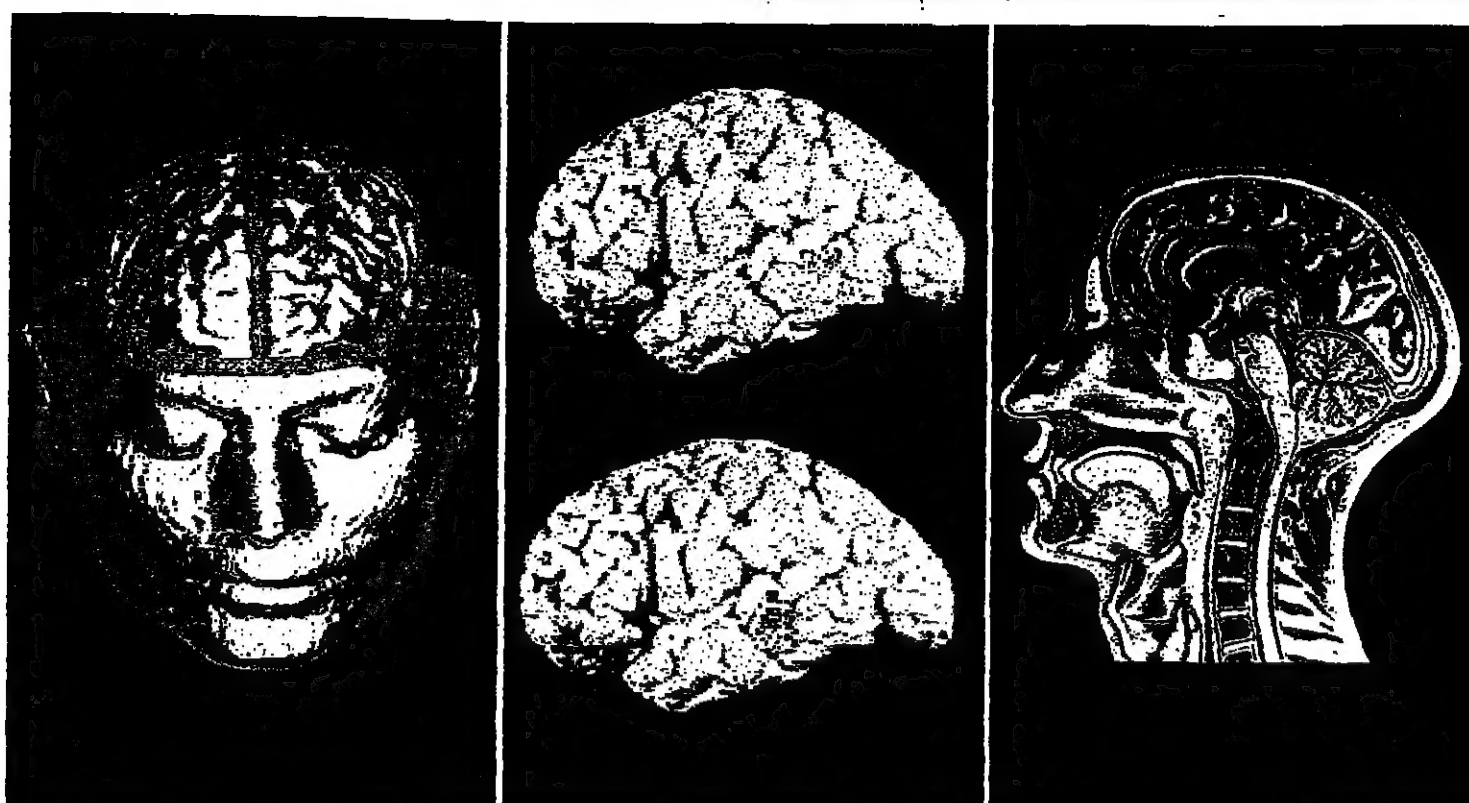
on toast at 9.00 pm., you get eggs on toast. Not a dirty look. You'll also find the AT&T Direct™ Service Speed Dial Feature in many rooms. Just the touch of a button provides fast connections, with the clearest sound quality on

calls back to the United States. Sheraton and AT&T. We'll look after you, body and mind. For reservations, call our Global Toll Free no. 0800-325-3333 or visit www.sheraton.com. Or to know more about AT&T, see www.att.com/traveler.



*Based on 1997 customer preference study.

INSIDE TRACK



Head scans from left, 3-D computed tomography scan; positron emission tomography; magnetic resonance image

Science Photo Library

TECHNOLOGY MEDICAL IMAGING

Exposed pictures of health

Four radiology techniques are transforming diagnosis and making imaging an essential part of medicine, says Daniel Green

For 90 years, the business of taking pictures of the inside of the body was routine: send X-rays through the body and record an image on film. Apart from tweaking the exposure and film, there were few variables.

But during the past decade, radiology has changed from medical backwater to mainstream. Where once there were only X-rays, now there are CT (computed tomography), MRI (magnetic resonance imaging), ultrasound and PET (positron emission tomography).

Each of these techniques is transforming diagnosis of disease, and each has its strengths and weaknesses. According to Jamie Weir, dean of the faculty of clinical radiology at the Royal College of Radiologists, between them they have made imaging essential.

"Take cancer. Medical imaging is used in diagnosis, staging (identifying how advanced the disease is), treatment follow-up, and palliative care," Dr Weir says. But competition between each is growing. Researchers and practitioners in medical imaging strive to broaden their own sub-specialties into their rivals' areas.

Of these four areas, CT is closest to X-rays. It uses a series of X-ray pictures taken by a camera orbiting the body. A computer combines these to form a detailed cross-sectional image.

A problem with X-rays is that they distinguish between body areas of different density – though that makes them useful for studying the skeleton, for example. A problem with the CT scan is that it produces

much more radiation than an X-ray. That is not considered dangerous, but receiving hundreds of CT scans may be inadvisable.

Both these issues are dealt with by MRI, which takes a picture of where water is in the body without using X-rays. It distinguishes clearly between skin, fat and muscle.

The technology is complicated, so take a deep breath: water molecules may behave like tiny magnets. An MRI scanner bathes the body in a powerful magnetic field and the water molecules line up.

Competition between each technique is growing. Researchers and practitioners in medical imaging are striving to broaden their own sub-specialties into their rivals' areas

The molecules are jarringly by a radio wave pulse, and as they realign with the magnetic field, they emit their own radio pulse. The pattern of that return pulse is turned into a cross-section of the body by a computer.

But there are three drawbacks: the machinery required costs about £1m and fills a room; the powerful magnets wipe magnetic storage media such as credit cards and floppy disks and may harm patients with heart pacemakers; and, as with CT, it can only take snapshots.

To the rescue comes ultrasound imaging. As its name suggests, a high frequency sound is sent out and echoes become image.

The machinery is small

enough to be wheeled about on a trolley. More importantly, the pictures are able, for example, to show real-time movements of a fetus in a woman's womb. In the hands of a skilled operator, the image may be as clear as a CT or X-ray. But the best images are of structures near the surface of the body, up to a depth of about 10cm, and the images show a smaller area than MRI or CT scans.

Finally there is PET technology, still largely a research tool. PET allows fascinating research into

electrical signals into images. As computers become more powerful, so does the machinery.

Some CT scanners, such as those from US company Imatron, are now so fast they can follow motion in real time, in a similar fashion to ultrasound.

And the clarity and power of ultrasound images to distinguish between different types of tissue is, according to ultrasound equipment makers such as Seattle's ATL, allowing ultrasonographers to do some of the work previously allocated to CT and MRI specialists.

Secondly, radiologists are increasingly making use of contrast agents in CT, MRI and ultrasound. These chemicals increase image clarity.

For example, children of foreign nationality living in the state who repeatedly commit offences may face expulsion, along with their parents. Other young criminals would be hit where it really hurts – with the removal of their car or moped driving licences. It is a "zero tolerance" policy against offenders, however minor the transgression.

Meanwhile, the state government is using DM75m (£24.7m) proceeds from the

sale of a stake in an Austrian-Bavarian power generator to build more prison cells and equip its 30,000 police forces with lap-top computers, linked via mobile telephones, to their BMWs. It is also expanding its network of "security watch" private individuals who guard car parks and other vulnerable sites.

Some of Bavaria's other ideas have already become common currency elsewhere in Germany – provoking concern among more liberal politicians. Bavaria, for instance, has pioneered a policy of "velvet searches", defining areas up to 30km behind borders and along railway lines and motorways where police may stop and search at random. Despite objections about the impact on personal freedom, parliamentary leaders of Chancellor Kohl's centre-right coalition in Bonn this month announced plans to adopt the scheme at the federal level.

Why is Bavaria on its guard? It is hardly riddled with "no-go" areas: crime levels have risen only slightly in recent years. The city of Munich feels safe and the murder rate is a fraction of a US city's.

An obvious explanation is the approach of state elections on September 13. The ruling Christian Social Union is threatened with the loss of its absolute majority in the state parliament.

"Domestic security in our state is no peripheral theme but a central concern of all citizens," says Mr Stolte. Within days of the security initiative, the far-right Deutsche Volksunion, which won almost 13 per cent of the vote in Saxony-Anhalt state elections in April, announced that it would not

stand in Bavaria because of the CSU's "rightward lurch". But Bavaria's fixation on crime also reflects a changing geography. Where once borders could be closely watched, Europe's Schengen accord on borders has removed the controls between Bavaria and Austria.

And Bavaria's other main neighbour – the Czech Republic – no longer lies behind an iron curtain. While Bonn, the seat of the federal government, has as near neighbours France, Holland and Belgium, Bavaria finds itself looking towards eastern Europe and the Balkans.

Germany's other federal states might be used to such historical upheavals; many were fashioned only after the second world war. But Bavaria's boundaries have hardly changed since Napoleonic times and it is as if the end of the cold war has knocked Bavaria's confidence.

Mr Beckstein, interior minister, says the increased flow of people and greater European co-operation is welcomed. But on top of fears of organised crime, he says there is a growing "wealth gap" in the state which is fuelling petty crime.

"People want the easier movement and the absence of queues at the borders. But they don't want to pay for it through higher criminality."

This clampdown on crime should not be over-dramatised, however. The "security watch" system is not a vigilante organisation; volunteers are paid by the state and armed only with mobile telephones and light-green armbands.

Attempts to expel foreign children have been blocked so far in court and indeed it is unclear whether Bavaria has the legal right to take such action. But Bavaria's security initiative shows an uglier side of the state.

RALPH ATKINS
FILE FROM MUNICH

Bavaria flirts with 'zero tolerance'

Elections are imminent and the southern German state is adopting a hard line on lawlessness. But its reaction has several ugly and disquieting aspects

The security camera above the door is like a carbuncle. It is hardly an original feature on the Munich concert hall constructed in the 1830s by Leo von Klenze, *Zeumesser* to King Ludwig I of Bavaria. But the electronic eye is an apt emblem for today's inhabitant of the sun-yellow building embellished with white columns – the Bavarian ministry of the Interior.

This may be among the most affluent quarters of Germany (next door to the ministry is a Glaxo Versace shop for those grown rich on the state's auto, engineering and electronics industries).

Bavaria also boasts one of Germany's lowest crime rates, with 5,816 offences per 100,000 inhabitants last year, and the highest clear-up rate at 64.3 per cent of cases. Yet, at least as far as crime policy goes, the conservative southern state is distinctly edgy.

A "security initiative" announced this month by Edmund Stoiber, Bavaria's prime minister, and Günter Beckstein, interior minister, has ratcheted up their headline political rhetoric and proposes a series of measures which would break new ground in post-war Germany.

For example, children of foreign nationality living in the state who repeatedly commit offences may face expulsion, along with their parents. Other young criminals would be hit where it really hurts – with the removal of their car or moped driving licences. It is a "zero tolerance" policy against offenders, however minor the transgression.

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sale of a stake in an Austrian-Bavarian power generator to build more prison cells and equip its 30,000 police forces with lap-top computers, linked via mobile telephones, to their BMWs. It is also expanding its network of "security watch" private individuals who guard car parks and other vulnerable sites.

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TRAVEL UPDATE

UK hotel leads the way in cut-rate fee for internet users

London's Millennium Britannia hotel claims to be the first in the UK to provide guests with access to the internet in their bedrooms without charging for the telephone calls.

Instead of going through the switchboard, laptop users will be connected via a fibre-optic link to the hotel's server. They will be charged a flat fee of £10 an hour or £40 a day, but will avoid paying for local telephone calls, which would be about £24 an hour at the hotel's rates.

Streamlining ticketless travel

US airlines are developing computer software to allow ticketless travellers to switch between each other's services. American is working with rival United, and Continental with America West. At present, passengers on flights involving more than one airline generally need tickets. If they book and pay electronically, they must do so separately for each part of the trip – and check their bags in again when they change aircraft. Existing software does not allow them to change easily to another

airline if the one they are flying with suffers disruption.

Taiwan airline steps up flights

The Asian crisis has not affected all airlines equally. EVA Air, the Taiwanese carrier, remains confident enough to step up its international services. On June 3 it will start flying separately to Paris and Vienna from Taipei. Six days later it will launch services to Ho Chi Minh City and Los Angeles from Kaohsiung, operating three times a week to each destination.

Beirut/London flight planned

Beirut's renaissance has gathered enough pace for Middle East Airlines to add a sixth weekly service to London. As from June 12 the airline will operate a flight from the Lebanese capital on Fridays at 11.15am, arriving at Heathrow at 2.20pm. The return service will be overnight – leaving at 10.30pm and getting to Beirut at 5am on Saturday.

Easier access to Luton Airport

Rail travel to Luton Airport, north of London, will become easier in September when the

first phase of a new station opens nearby. Buses will shuttle passengers from a stop on the Thameslink line between King's Cross and Bedford. The transfer will take only two minutes.

Spanish group to run Lima hotel

Spain's Sol Melia hotel chain is to run its first hotel in Peru. From July it will take over management of the former Ritz, a recently refurbished five-star property near the commercial centre of the capital, Lima. To be operated under the Melia Confort brand, it has 156 rooms and 29 suites, a business centre and conference facilities.

The office comes to the piste

It is becoming ever harder to escape the long arm of the office – even on the ski slopes. The disruptive chirp of mobile phones is already familiar on the piste. Now the US ski resort of Jackson Hole, Wyoming, plans to build a business centre slightly more than 9,000ft above sea level at the top end of its recently opened Bridger Gondola lift. Executives taking a break between runs will be able to send faxes, plug in their laptops and gain access to the internet. "We are experiencing more and more demand for it," says the resort's marketing department.

Easy living for BA clubbers

British Airways Gold and Silver Executive Club members flying domestically through Heathrow Terminal 1 finally have a stylish lounge, writes Gillian Upton. They may shower, sleep, browse in a library, work in a business centre or – as from the year's end – enjoy a massage.

Roger Bray

DIGITAL SYSTEMS

Image of X-ray film's rival begins to form

After 10 years in development, a new approach to medical imaging that does away with X-ray film is being used in hospitals.

Digital X-ray imaging promises better pictures, reduced procedure time and potential cost savings. The concept is similar to that of digital cameras, where film is replaced by a detector that converts light into an electric charge proportional to the amount detected. The signal is enhanced and displayed as pixels on a screen. The resulting digital image may be stored, reviewed and transmitted electronically, removing the need for chemicals, film, and large quantities of storage space.

With this technology at their disposal, radiologists will be able to transmit images across a network, along with patient data, for consultation with experts in another department, hospital or city.

The technology may have important clinical benefits too. The dose that patients receive is thought to be reduced, though this has yet to be proved. It is also often unnecessary to take successive X-rays as the original image can be magnified and enhanced by software.

Digital X-ray imaging has three main applications: breast cancer screening, fluoroscopy – in which moving

images are used to guide a catheter or biopsy needle – and general X-ray procedures such as the skeleton. These applications account for 70 per cent of all diagnostic imaging examinations.

Most imaging equipment manufacturers have digital imaging programmes, with several technologies competing for leadership.

The first – charge-coupled device technology – uses an array of photodiodes that store an electrical charge. The signal is amplified and converted to pixels. With CCD technology, a scintillator is needed to convert X-rays into light before they can be detected.

Systems based on this technology and manufactured by Swiss company Swissray have been installed in hospitals in Germany, Switzerland and the Netherlands. The company has recently been given the go-ahead to sell its technology in the US. Trex Medical, a US company, plans to use CCD technology in breast imaging first, then in general imaging.

Morgan Nields, chief executive of Fischer Imaging, a US company, says image quality is still debatable. "We all agree that image contrast is better with digital technology than film but it still remains to be seen whether resolution is better."

The other main digital technology is based on flat panel detectors made from either silicon or selenium. Silicon flat panel detectors are basically thin films of silicon integrated with two dimensional CCDs, which are covered with a scintillator material.

Michael Strotzer at the University Hospital in Regensburg, Germany, has studied 120 patients using a flat panel silicon-based detector made by Siemens. The technology was developed by the German company, Philips of the Netherlands and Thomson Tubes Electroniques of France.

The Regensburg researchers produced clinical images at half and even one-quarter the dose of film screen technology. Image quality on a small (15cm x 15cm) detector was better at longer exposure times but the quality reduced with shorter exposure. Trials have begun using a 43cm x 43cm detector suitable for general imaging.

Another amorphous silicon system, Last or Large Area Sensing Technology, has been developed by US-based Varian Imaging Products. David Gilblom, general manager, says Last should be available later this year on imaging systems from companies such as Picker, while it is already in use in Austria as a "portal imaging system" for positioning the



Human digits captured by digital X-ray. Sterling Diagnostic Imaging

patient and verifying the therapy beam.

The other type of flat panel detector is based on the semiconductor material selenium. US-based Sterling Diagnostic Imaging is using this in a system that has recently been cleared for use in the US. Selenium removes the need for a scintillator coating so the technology is termed "direct to digital" X-ray by Sterling.

David Pirano, head of computing in the radiology section of the Cleveland Clinic Foundation, which performs 80,000 chest X-rays a year, has overseen trials of Sterling's system. He thinks digital X-ray will change the way radiologists interpret images of a patient. As

images become increasingly available in digital form, there will be more software to help interpret the data.

But there are many unanswered questions. The amount of data that can be captured could be limited, and image quality may be better than film only in applications where a small area is being imaged. But as the cost of the components drops and clinical use increases many of these questions will be answered.

Phil Greenfield

The writer is science and technology editor of *Clinica*.

INSIDE TRACK

BUSINESS EDUCATION FOOTBALL MANAGEMENT

In your head, my son

Sheila Jones finds there is a premium on off-the-ball skills at the modern soccer club

Football has grown so rapidly as an industry it was only a matter of time before management schools picked up on the potential for training its managers.

The University of Liverpool is offering 35 places on a full-time Masters in Business Administration course, specialising in football industries.

It is the first post-graduate course "to focus on the rapidly expanding worldwide interest in the development, management and marketing of football", according to the university. It aims to equip students interested in a career in football with an understanding of the game and with core skills in business administration.

"Football managers in the past were often successful local businessmen who got involved in the game, but never treated a football club the way they would treat their business," says Rogan Taylor, head of the university's Football Research Unit and founder of the Football Supporters' Association. "They never saw the fans, for example, as customers, or treated them the way they would treat their own business customers."

The "huge amounts of money" generated by the game mean clubs are looking for managers who see football as a business and know how the industry works.

They are also becoming less inclined to take on ex-players with no experience off the pitch. "Where there is a lot of money involved, it's hardly the ideal sort of appointment to recruit an ex-player as commercial director, even if he is well-liked and the club's former centre forward."

Students on the course receive training in the generic MBA skills in business administration, and in the organisational structures and social history of football.



Ground work: Rogan Taylor, head of Liverpool's Football Research Unit

Tom Finnie

They are also expected to complete a dissertation based on independent research following a one-month placement with a football-related business or organisation.

This year's offer of 35 places follows a 20-place pilot year for the course which finishes in September. Alex Phillips, 27, is among the first year's intake. He gave up a job in research and marketing to complete the one-year course.

An Arsenal supporter, he wanted to turn his interest in the game into a career. "Traditionally, the football industry has had a 'jobs for

the boys' image, with people getting into the industry because they have always been there," he says. "Football is something I'm interested in and I want to use my abilities and skills in something I love doing."

Demand is growing for people with the right skills, says Mr Taylor. "Some people were inclined to pooh-pooh the idea of an MBA in football, but now they are saying we need highly qualified people with an interest in the business world and an understanding of the peculiar and particular nature of football."

The game has become

extremely complex, he says. "It's not like producing cans of beans. Liverpool does not want to push Manchester United out of business, for example, the way Heinz might want to [to one of its competitors]. It is an odd form of capitalism. What other industry is also expected to understand social problems such as racism? Football is social, commercial and cultural. And of course for some it's a religion."

The course costs £3,200 for students in the UK and European Union, including placement costs, and £6,600 for students outside the EU.

Former Clinton aide is named dean of Haas

UC Berkeley has appointed Laura Tyson, Bill Clinton's former chief economic adviser, as the new dean of its Haas business school. Prof Tyson will be the first woman to take charge of one of the premier league business schools.

Prof Tyson, who will take up the position in July, joined the Berkeley faculty in 1977. She took leave from Berkeley in 1993 when President Clinton appointed her chair of the White House Council of Economic Advisers. In 1995 she became National Economic Adviser, returning to Berkeley in 1997.

Prof Tyson is an authority on US economic competitiveness, trade policy and economic relations between the US and Japan.

Prof Tyson will be the first endowed dean at Berkeley; she will hold the title of BankAmerica dean in recognition of a \$2m donation from the bank.

Haas: www.haas.berkeley.edu

ABS launches award scheme

The UK's Association of Business Schools, in partnership with life insurers Clerical Medical and the Guardian and Observer newspapers, has launched a UK award scheme for both MBA and undergraduate students.

On the MBA front the scheme gives a first prize of £2,000 and a second prize of £1,000 to MBA students who can best demonstrate how their programme will help them launch their own company or develop a new division or product area for their existing company.

Distance learning, computer-led delivery and management education in a high-tech world will be the subject of a one-day conference organised by the

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950



NEWS FROM CAMPUS

ABS: The Virtual Classroom will take place on May 26. ABS: UK, (0)891 338260

Transatlantic learning

Twenty employees at the London office of Drescher Kleinwort Benson will be the first to "join" a class in computational finance to be run by Carnegie Mellon University from its campus in Pittsburgh.

US participants on the two-year part-time masters course will be joined by the London cohort using interactive video. The link will be two-way, enabling the London class to question faculty and their US peers. Drescher Kleinwort Benson: UK, (0)171 475 8187

Latin swap deal signed

The Instituto de Empresa in Madrid has signed an agreement to exchange students, faculty and research with INCAE, the Costa Rican-based business school. The first exchange will be with the Latin American Programme for the Internationalisation of Small and Medium-sized Businesses, to be launched in early 1999.

A former lecturer in American film history and consultant to the film industry has been named as director of research at IE. Dava Allen has been professor of strategic management at IE since 1992. IE: Spain, 1 562 8100

Competition and trade conference

The European Institute for Advanced Studies in Management (EIASM), the European management networking group, will hold its next conference on Competition and International Trade in Brussels on May 29 and 30.

EIASM: Belgium, 2 511 9119

BUSINESS EDUCATION ROLE MODELS

Family values replace the dash for cash

Business superstars are no longer the heroes they once were, even for MBA students, writes Della Bradshaw

Fathers, it seems, have a lot to live up to. They are the most respected individuals in the world among graduating MBAs at 10 of the top US business schools, according to a survey by the Fuqua School of Business at Duke University in North Carolina.

They received more than 11 per cent of the vote, more than double that for the next most respected person. Microsoft's Bill Gates, who scored only 5 per cent.

All in all, business people fared pretty poorly. Of the 12 most respected people, five

were family members and only four were business people - Bill Gates, Warren Buffett, Andy Grove and Jack Welch. (The other three favourites, in descending order, were Jesus Christ, Pope John Paul II and Thomas Jefferson.)

The survey appears every two years and charts the differences in the goals, attitudes and employment patterns of some of America's brightest MBAs.

The increasing respect for family members contrasts sharply with results from a decade ago, says Daniel Nagy, director for career ser-

vices and placement at Duke, who compiles the survey. Then, family members appeared towards the bottom of the list, and the poll-toppers were the financial wizards of the day, arbitrageur Ivan Boesky and bond-trader Michael Milken.

The shift is indicative of a growing emphasis on family life rather than financial gain, a trend which has gained particular momentum over the past four years. Time with the family is proving increasingly important.

"This generation is willing to walk away from a job if it doesn't offer it," says Mr

Nagy. "They all have three job offers, so they can afford to do that."

Having a successful marriage or relationship, physical health and strong ethics are the three goals rated most highly by respondents. A successful career slots into fourth place.

Making a lot of money is down in 12th position. Nevertheless, the average starting salary this year will be \$77,234 (£46,241.90), up from \$69,387 in 1996. Eighty per cent of respondents will also receive a sign-on bonus averaging \$17,923, and 37 per cent a guaranteed annual bonus.

The most popular career is still consulting (32 per cent)

followed by investment banking and finance (together accounting for 31 per cent of graduates).

Sixty-four per cent of respondents said that they would not work in certain industries because of ethical concerns. Top of the black-

list were tobacco producers (91 per cent) - perhaps surprising in an area where economic prosperity has been built on tobacco. Second came alcohol manufacturers (22 per cent); defence contractors (12 per cent) came third.

The survey was conducted in April this year and 1,400 questionnaires were sent to graduating MBAs from 10 business schools: Amos Tuck

(Dartmouth), Fuqua (Duke), Kelley (Indiana), Kellogg (Northwestern), Anderson (UCLA), Chicago, Katz (Pittsburgh), Texas at Austin, Darden (Virginia) and Wharton. The response rate was 43 per cent.

The report also revealed that women MBAs are twice as interested as men in having the opportunity for an in-depth conversation with Bill Gates. And when asked who they would like to sit next to on an aeroplane, 3 per cent of women - but no men - said they would like to sit next to Hillary Clinton. Only the male respondents said they would like to sit next to supermodel Cindy Crawford.



TIM JACKSON ON THE WEB

Gateway to opportunities on the internet

Two separate deals - one involving Motorola and Teledesic, the other AOL and ICQ - illustrate the chances to generate revenues on and beyond web sites

Internet investors have recently been talking about the value of "portals" - busy web sites that generate high revenues from advertisers. But portals are not just web sites, as two deals made public last week illustrate.

The first is the acquisition by Motorola of a 25 per cent stake in Teledesic, the company that plans to launch a network of 288 satellites offering broadband worldwide access to the internet. In joining forces with Teledesic, Motorola is abandoning its efforts to develop a broadband satellite communications network called Celestri - and acknowledging that the risks of competing against a company founded by Bill Gates, Microsoft chief, and Craig McCaw, the cellular phone pioneer, were too great for comfort.

For Motorola, the deal is an insurance policy against the obsolescence of Iridium, the network it founded that

will go live in September offering a global mobile phone service via satellite. Although Iridium will have a few monopoly years, before rival services start, the launch of Teledesic in 2003 will make Iridium's low-bandwidth service far less attractive to consumers.

This is the third big equity investment for Teledesic, after a round with Boeing last year and an equity sale to a Saudi Arabian prince this year, making it easier to go public quickly. The price of the Motorola deal has been headline at \$750m (£490m); the small print reveals this is a "valuation" based on the combination of cash and the development work being redirected from the Celestri project.

For a business that Mr McCaw and Mr Gates put \$10m into less than two years ago - which has launched just one test satellite and is still five years away from revenues -

a \$9bn valuation is not bad going. There is also the advantage, in Richard Nixon's memorable phrase, of having Motorola "inside playing out rather than outside pissing in".

The second deal is not official yet. But the Wall Street Journal reported on Thursday that America Online is in talks to acquire Mirabilis, the company that developed the ICQ instant-messaging system, for about \$900m. ICQ was founded on the idea of taking the "buddy list" technology invented by David Gang, a senior technologist at AOL, to the wider internet. It is a free service that allows anyone with an internet connection to exchange instant one-liners with friends across the internet in a single screen window, without having to check mail and create messages.

When ICQ was first covered in this column last

summer, it claimed 3m users. On April 7 it passed 10m. Although it has not yet generated any revenue (it is free to users and carries no advertising), ICQ's web site (www.icq.com) has become the fourth most popular destination after Yahoo!, Netscape and Microsoft. Mirabilis claims it generates more "page views" every month than even Yahoo!.

If the deal goes through (both companies refused to comment), the Mirabilis founders, four Israelis in their 20s, will make \$90m or more each for 18 months' work. For its part, AOL has made no secret of its ambition to extend its market power from the 12m US and 2m foreign subscribers using its online service to the rest of the internet's users too. The AOL.com web site was a first move in this direction, and the opening of AOL's own message service to non-AOL customers a second; acquiring 10m or more ICQ users would be a dramatic third.

At first sight, \$90 a customer may seem a high

price to pay for a service free to its members. But compared with the \$273 it paid for each AOL subscriber in late 1996, the ICQ price tag looks modest.

Both ICQ and Teledesic are internet portals whose web site is a side-show: ICQ because its users keep a communications window open on their computer screens, and Teledesic because it will control the way its users access the net. A launch date is so far away that Teledesic has probably barely begun to think about how its service will look to users. But the eHome cable internet access service covered in last week's column shows how many revenue opportunities there are to a company controlling the internet interface used by its customers. Teledesic's opportunity will be all the greater, since it will address hundreds of millions of customers beyond the reach of cable networks.

Teledesic is not the only company seeking to create a hardware portal. Gateway, the US direct seller of PCs, has become an internet

service provider, providing the non-expert buyers of 800 PCs with easy and instant access to the internet.

In Europe, Sony is also rolling out an online service. Given the company's depressing experiences in Hollywood, investors should hold on to their wallets when they hear the word "synergy" - but there is an opportunity to develop an ISP business that bolsters sales of software and computer and electronics hardware, and perhaps helps connect phones and games machines to the net.

And the final hardware portal? Well, look at the antitrust case against Microsoft. In one sense, its tough tactics against Netscape constitute an attempt to extend an operating system monopoly into a browser monopoly. Alternatively, one could view its pressure on PC manufacturers to bundle the Internet Explorer browser into their products as an attempt to create a hardware portal of its own.

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A BETTER APPROACH TO BUSINESS

THE ARTS

OPENINGS

LONDON

Finnish virtuoso Jarkko Kuusi, accompanied by the Jupiter Orchestra, gives the world premiere of a Violin Concerto by Johann Nepomuk Hummel (1778-1837) tomorrow at St John's, Smith Square. Parts for the unfinished work were found in the British Library by Gregory Rose, who has completed and edited the score.

London's outdoor theatres open their doors this week. The first new production of the season at Shakespeare's Globe is *As You Like It*, directed by Lucy Bailey, with Anastasia Hille as Pheasant. The opening performance is a matinee on Thursday. Richard Olivier directs *The Merchant of Venice*, which opens on Friday. Presented alongside it is an education



programme titled "Shakespeare and the Jews". Rachel Koveraugh's production of *A Midsummer Night's Dream* returns to the Regent's Park Open Air Theatre tomorrow, with a new cast

including Ian Talbot and Nicola Duffett (left). Michael Frayn's first original play for the National Theatre opens at the Cottesloe on Thursday. Called *Copenhagen*, it is directed by Michael Blomqvist and stars Matthew Marsh (below) as German physicist Werner Heisenberg.

SALZBURG
A new festival of baroque

music will be inaugurated on Friday. The opening event in the cathedral features the Amsterdam Baroque Orchestra and Choir in works by Elber. The festival also includes a production of Cavalli's *Le Caïsto* in the Kleine Festspielhaus, conducted by René Jacobs and staged by Herbert Wernicke.

GÖTTINGEN

The Handel festival in one of Germany's oldest university towns gets underway on Thursday at the Deutsches Theater. This year's new production is *Torquato*, conducted by Nicholas McGegan and staged by Drew Minter.

BONN

The latest exhibition in the "Great Collections" series organised by the Kunst- und Ausstellungshalle is devoted to the Petit Palais in Paris. Opening on Wednesday, the show concentrates on the museum's holdings of 19th century French art.

BIRMINGHAM

The Birmingham Royal Ballet opens a season at its home theatre, the Hippodrome, on



Wednesday, with David Bintley's highly dramatic *Edward II*, (replete with torture and some very harrowing moments).

NEW YORK

The Royal Shakespeare

Company's two-week residency at the Brooklyn Academy of Music continues this week with the opening, tomorrow, of Gregory Doran's production of Shakespeare's rarely performed *Henry VIII*, starring Paul Jesson and Jane Lapotnik (left). Krapp's Last Tape, by Samuel Beckett, opens on Wednesday, and stars Edward Retherbridge, who co-directed with David Hunt.

TOKYO

On Friday another touring Royal Shakespeare Company production opens a two-week season in Japan. Directed by Michael Attenborough, *Romeo and Juliet* is at The Globe Tokyo, and then, from 12 June, at the Kintetsu Theatre in Osaka.

OPERA OPENING OF THE GLYNDEBOURNE SEASON

Back to school for Mozart's lovers

Graham Vick's new production of 'Così fan tutte' as opera-in-rehearsal is full of contradictions, writes Andrew Clark

There are a lot of insoluble contradictions in Glyndebourne's new *Così fan tutte*. How does an excellent young cast, led by Katarina Karnéus's spunky, sexy Dorabella, find itself enmeshed in such an excruciatingly dull performance? Why does Graham Vick's staging begin with the idea of *Così* as rehearsal, but fail to offer any development of character and situation? What does Glyndebourne hope to achieve with a new *Mozart* da Ponte cycle, when the first instalment is so poorly thought through?

In a programme note, Vick proposes "a laboratory experiment into the behaviour of men and women". His inspiration, he says, comes from the cold, cruel strand of Enlightenment philosophy binding *Così* and *Les Histoires dangereuses*. It's a legitimate approach: let's free ourselves of the historical, geographical and interpretative associations with which *Così* is burdened; let's study it as a form of "dramatic anthropology", with singers dressed in T-shirts and jeans.

But having stated that *Così* doesn't need "any kind of context at all", Vick goes on to describe the very context in which he wants us to view it - as an opera rehearsal. This is equally

viable, for Mozart's "school for lovers" is a rehearsal for life, in which young people try out different partners before reaching a fixed arrangement.

Vick can't have it both ways. A clinical study of young people's relationships would require a neutral set-

The production falls between two stools, starved of humour on the one hand and emotional depths on the other

ting - not Richard Hudson's modern rehearsal room, with its director's chair, stage-crow and all the expectations such a scenario arouses. If we are going to see it as a rehearsal, let's have a cast and pianist permanently on stage, stepping in and out of character, falling into relationships and identifying with Mozart's emotional dilemmas. Such a scenario could well match the duality of *Così* - if it was

properly thought through. As it is, the production falls between two stools, starved of humour on the one hand and emotional depth on the other. We begin with the rehearsal: Alfonso starts to direct as the overture draws to a close, while Ferrando and Guglielmo gesture dismissively at the parts he expects them to play.

By the third scene, everyone has reverted to type and the women are never again seen out of character. Vick pays lip-service to the "rehearsal" by having stagehands appear at various intervals to give cues, which they wouldn't do in real life. It looks like a shoe-string production - monotonous in appearance, bloodless in content. Like so much of his recent work, Vick's *Così* has no inner logic: even the game of musical chairs during Guglielmo's Act 1 patter-song comes across as a superficial effect.

More's the pity, for this is a cast with enormous potential. Karnéus is a bombshell - well-endowed in all departments, eager to flirt with the audience as much as her partners on-stage, a knowing comedienne with a natural stage manner and a beautifully placed voice. Barbara Fritoli's Fiordiligi is inevitably quieter by comparison -

but this fits the part, and she despatches her two big arias with disarming ease. Natalie de Carolis is the perfect Guglielmo: a soft-centred, masculine baritone matched to slim good looks. Roberto Sacca's Ferrando is not in the same class - his pushed tone is a matter of taste - but he acts with spirit. Daniela Mazzucato's tall, blonde Despina shows plenty of promise, but like Alan Ople's urbane Alfonso, she needs a director who can draw out her personality.

Andrew Davis conducts an

unusually full text, which only adds to the tedium of the performance. He tries hard to sound a natural Mozartian - the London Philharmonic adopts as many "period" mannerisms as it can - but there's little sense of dialogue within the orchestral parts. Apart from an extremely slow "Per pietà", the performance unfolds as a succession of unexceptional allegros.

It was hard to believe that the orchestra which sounded so anemic in Thursday's

Così could respond with such extremes of intensity and sensitivity for Saturday's revival of *Katya Kabanova*.

This was not just a case of a more Romanticism-inspired score; it bespoke a conductor, Yakov Kreizberg, with a rigorous command of outline and inner detail. I have never heard the nerve-ends of Janáček's music pulled so taut.

Nor have I witnessed a production so in tune with the emotional claustrophobia of the title character.

Nikolaus Lehnhoff's 1988 staging, set against the vibrant colours of Tobias Hohelsel's semi-abstract sets, comes across more arrestingly than ever with a new cast headed by Amanda Roocroft. She gives the performance of her life - a stark, swirling roller-coaster of visions and nightmares, in which we share her every heartbeat.

Christian Papis's Boris is a dapper wastrel, while Timothy Robinson and Linda Tuvás make a vivid pair of younger lovers. Neill

Archer's Tichon is a powerful portrait of weakness; Andrew Shore, as Dikoi, captures the clipped mannerisms of the provincial tyrant. Helga Dernesch's Kabanicha is more formidable in manner than voice. Her scene with Dikoi should be repulsive, not comical; and it is too much of a sermon to have Kabanicha addressing the audience at the end, as if we represent the society responsible for Katya's death.

Otherwise, this is one of Glyndebourne's finest.



Shame about the production: an excellent young cast with enormous potential is led by Katarina Karnéus's spunky, sexy Dorabella (second right)

Delicious romp sets the stage alight

BALLET
CLEMENT CRISP

Don Quixote
Paris Opéra Ballet

The Paris Opéra Ballet is beginning a very busy summer. At both the Palais Garnier and the Bastille, performances are scheduled until mid-July with the big house-filling works which will rest assured - fill the houses. And the ballet troupe is sufficiently strong (and sufficiently sure of its public) to be able to play two big works on the same evening. This week, while half

the troupe prepares to launch into *Romeo and Juliet*, the rest of the ensemble romps through Nureyev's *Don Quixote* with whatever is the dance equivalent of shouts of delight.

Nureyev's view of this dear, irrational and, frankly, chicken-witted old charmer is that of a man cramming a Strasbourg goose for the delectation. More and more corn - that is to say, more and more dances, many of them very corny indeed - are forced in to provide us with the choreographic equivalent of *paté de foie gras*. The result is delicious when served up by the

Opéra's dancers. They are, variously, Spanish, gypsyish, toreros, dryads, and marvellous at every moment. The Nureyev formula - if there's music, dance to it - sets the stage alight and if a variation can be doubled, an ensemble made to mirror itself, then so be it, and let us all enjoy excess to the full.

I saw Wednesday's performance, led by Agnès Letestu, new to the role of Kitri this season, and Laurent Hilaire, all dark charm and impeccable technique. They make a fine pair. Mile Letestu has Ingres-pure line, and the classic assurance to

make the big set-pieces glitter like real diamonds. She is a sophisticated Kitri, a cut above her family surroundings, and she offers wit rather than exuberance. I thought her lovely, though with experience she will find an extra dash of pimento for the first act variations. (Shades of Plisetskaya and Ninel Kurgapkina who made them firework displays.) Hilaire is an up-market Basilio - I shudder to think what a short-back-and-sides costs in his salon - but with a dashing way with the girls and an even more dashing way with the dances.

Everything about the per-

formance was bright, visually appetising. Nicholas Georgiadis' designs are as stylish as can be, and combine serious historic sense (the period seems that of Goya) with abundant wit, and flame-bright clothes.

The dancing was uniformly good. Lionel Delaune was a most polished Espada, and in the big classic assemble of the vision scene, how good to see Marie-Agnès Gillot soaring through her variation, and Geraldine Wiart making Cupid's variation - which is often a nasty outbreak if the cutes - into a display of dazzling footwork and

delight in the dance. (The last major role I saw her dance was a searing interpretation of the Chosen Maiden in Pina Bausch's *Rite of Spring*. Here is an artist to reckon with.)

I also lost my heart to Clairemarie Osta and Cecile Sciaux as Kitri's two friends: so pretty, so bright, so beguiling, so gifted. And much praise for Laurent Quéval as a niftyish, teetering Gamache, all gloves and a pout.

A splendid evening in sum, and one benefiting from fine playing from the Opéra orchestra under David Coleman. And as a theatrical note - which is often a nasty outbreak if the cutes - into a display of dazzling footwork and



Fine pair: Agnès Letestu and Laurent Hilaire

Moatti

INTERNATIONAL
Arts
Guide

BALTIMORE

EXHIBITION
Walters Art Gallery
Tel: 1-410-547 9000
Monet: Paintings of Giverny from the Musée Marmottan. 22 paintings of the gardens of Monet's estate. Photo murals and works from the collection are shown alongside the touring works; to May 31

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-379 6310
Egon Schiele: The Leopold Collection. 152 paintings and drawings on loan from the largest private collection of Schiele's work in the world; to May 31

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
● Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Bartók and Brahms. With soloist Andrés Schiff; May 25
● Berlin Philharmonic Orchestra:

conducted by Bernard Haitink in works by Schubert and Shostakovich. With soloist Matthias Goerne; May 29, 30, 31

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 26, 28
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 31

EXHIBITIONS

Museum of Contemporary Art
Tel: 1-312-280 2680
Cindy Sherman: retrospective tracing the New York-based artist's development from the 1970s to the present; to May 31, then touring

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
● Le Corne Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETT-Teatro della Pergola; May 27, 28, 30
● Wozzeck: by Berg. New production by William Friedkin;

conducted by Zubin Mehta; Teatro Comunale; May 26, 29

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; May 28

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Così Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Ople and Barbara Fritoli. With the London Philharmonic Orchestra; May 30
● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hohelsel. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; May 26, 29, 31

HELSINKI

EXHIBITIONS
Museum of Foreign Art, Sinebrychhoff
Tel: 358-9-4030 2211
Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Fitz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; May 29

FINNISH NATIONAL OPERA
Tel: 358-9-4030 2211
Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Fitz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; May 29

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: André Previn conducts a programme of works by Copland, Prokofiev and Shostakovich; May 31

ROYAL FESTIVAL HALL
Tel: 44-171-960 4242
● The Royal Opera: Die ägyptische Helena, by Strauss. Concert performance, conducted by Christian Thielemann. Cast includes Deborah Voigt and Thomas Moser; May 25
● Bavarian Philharmonic Orchestra: conducted by Riccardo Muti in works by Brahms and Stravinsky; May 28

EXHIBITIONS

National Gallery
Tel: 44-171-638 3321
Henry Moore and the National Gallery: this celebration of the centenary of Moore's birth consists in a selection of his favourites among the Gallery's holdings; to May 31

Tate Gallery

Tate Gallery
Tel: 44-171-987 8000
Per Kirkeby (b.1938): continuing the series of contemporary

sculpture displays, this exhibition includes paintings, sculptures and a specially constructed brick structure by the Danish artist; to May 26

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8101
● Bavarian Youth Orchestra: conducted by Reinhard Steinberg in works by Brahms and Berlioz. With piano soloist Paul Rivinius; May 27
● Ivo Pogorelec: recital by the pianist of works by Rachmaninov, Granados, Prokofiev and Chopin; May 25

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: world premiere of Del Tredici's The Spider and the Fly, for Vocalists and Orchestra, conducted by Kurt Masur. The programme is completed by works by Copland, Vivaldi, Weber and Ravel; May 28, 30

EXHIBITIONS

Museum of Modern Art
Tel: 1-212-708 9480
www.moma.org
● Chuck Close: retrospective of the American painter, comprising 90 works and ranging across his career; to May 26
● Fernand Léger (1881-1955): retrospective comprising some 220 paintings and drawings by the

early modernist; to May 27

PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
● Orchestre National de France: conducted by Yuri Temirkanov in works by Rimski-Korsakov, Rachmaninov and Elgar. With piano soloist Yefim Bronfman; May 28
● Vienna Philharmonic Orchestra: conducted by Seiji Ozawa in works by Brahms and Stravinsky; May 26

PRAGUE

CONCERTS
Dvorak Hall
Midori: recital by the violinist of works by Beethoven, Brahms, Szymanowski and Saint-Saëns. With pianist Robert McDonald; May 28

EMATEAS HALL
Kathleen Battle: recital by the soprano of works by Handel, Wolf, Faure, Rossini and Turina. Accompanied by pianist Roger Vignoles; May 28

SALZBURG

CONCERTS
Salzburg Cathedral
Amsterdam Baroque Orchestra: and Choir: conducted by Ton Koopman in a concert which opens a four-day festival of Baroque music; May 29

SAN FRANCISCO

CONCERTS

Davies Symphony Hall

Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Youth Orchestra: conducted by Alasdair Neale in works by Bernstein and Rachmaninov; May 31

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
City of Birmingham Symphony Orchestra: conducted by Sir Simon Rattle in works by Brahms and Beethoven. With violin soloist Ida Hendel; May 26

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

● **CNN International**
Monday to Friday, GMT:

06:30: Moneyline with Lou Dobbs
13:30: Business Asia
19:30: World Business Today
22:00: World Business Today Update

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTV reports live from Liffe as the London market opens.

PERSONAL VIEW JOSEPH NYE

It's time for free time

Reform of the US campaign finance system should concentrate on removing the need to raise big money to purchase TV time

The battle for reforming the US campaign finance system needs a new focus: free television time for candidates. President Clinton has asked the Federal Communications Commission to adopt a rule requiring it, but opponents are challenging the FCC's authority to do this.

Free TV time offers the best option for campaign finance reform because it goes to the heart of the problem of big money, and involves no challenge to the First Amendment and its protections of free speech.

Legislative proposals for reform seem to be going nowhere. The McCain-Feingold bill, one of the original proposals for reform in the Senate, is being stymied; the Shays-Meehan bill in the House, meanwhile, focuses on banning contributions from unions and corporations, as well as limiting money from political action committees (PACs) and so-called "attack advertisements". Even if it were passed, it would face a constitutional challenge because it would limit political speech and would run afoul of previous Supreme Court rulings.

Instead of focusing on reducing the ceiling on spending, reformers should shift to a strategy of "raising the floor" so competition is more equal.

Big money has undermined public confidence in the US political process because "big money" buys access and violates the principle of one person, one vote. As Ollman Roger Tanraz told the Senate's government affairs committee last year, "if they kept me from the door, I'd come through the window... Next time, I'll give \$600,000". Such behaviour breeds a cynicism that corrodes the democratic process. It is no wonder that polls show a decline in public trust.

Much of the campaign quest for big money is driven by the need to pur-



Atsack Conservative activist Floyd Brown invited viewers to listen to alleged 'love tapes' in 1992. AP

chase television time. TV has changed our political process from retail to wholesale. Instead of neighbourhood coffees and local political structures, campaigns today are driven by marketing consultants. Parties have become a mechanism for raising money for television campaigns. The cost of political TV ads rose from \$25m in 1972 to \$400m in 1996, four times the rate of inflation.

Moreover, their content has become much more negative, resulting in a general degradation of politics and government. Experiments show that negative ads mobilise each politician's base of committed partisans, but they tend to make the middle voters drop out in disgust. That partly explains why, as polls show, Congress is far more polarised politically than is the general electorate.

How would free TV work? There are various proposals including one for creating a broadcast bank of minutes with commercial time provided by broadcasters who have been licensed for public transmission. Half the time in the bank would go to the political parties for candidates, and the other half would go to candidates with

broader support among small individual contributors. Candidates could be required to agree to public debates, and appear in their ads in person, something that has been shown to limit negativity in the past. The total costs could be capped at \$500m per two-year electoral cycle, or about 1/2 per cent of broadcasters' advertising revenues.

The benefits include reduced pressures for fundraising, and a more level playing field from the one that now favours incumbents or rich candidates. Free TV was included in the McCain-Feingold bill, but it was unfortunately linked to voluntary limits on expenditure. The bill's sponsors dropped the provision because incumbents feared it, and the National Association of Broadcasters lobbied heavily against it.

The NAB is going to war again to block the proposed FCC regulation which Clinton and some 83 members of Congress support. Contrary to broadcasters' arguments, however, Supreme Court precedents suggest that free TV would not violate either the First Amendment or be an infringement against

their property rights (property being the broadcast license) under the Fifth Amendment.

What's next? Polls reflecting the public's decline of confidence in the current process also show that two-thirds of the public favour free TV. The vote of no confidence in the current system is showing up on income tax forms as reduced political contributions. The public wants something more for their money.

Free TV is not a panacea but it is an important step in helping to level the playing field and restoring public trust. It does not solve the problem of "issue ads" run by special interest groups as adjuncts of political campaigns, but it does ensure that candidates, both incumbents and challengers, will be able to respond.

It is a more realistic campaign finance reform measure because it raises and levels the floor instead of trying to lower the ceiling.

The author is dean of Harvard's Kennedy School of Government and co-author of the recent book, *Why People Don't Trust Government* (Harvard University Press)

LETTERS TO THE EDITOR

US risks stagnation if net lending driving growth were to fall

From Professor Wynne Godley

Sir, Is Gerard Baker ("Unusual danger signs", May 18) being complacent about the debt situation in the US?

In the fourth quarter of 1997 the growth in the real stock of private "non-financial" debt was more than 10 per cent higher, as a proportion of gross domestic product, than at the end of 1991. Expenditure associated with this expansion of lending has been the driving force behind US growth during the past six years. The evidence for this is that total private expenditure over this period has risen 9 per cent more than disposable income, while fiscal policy has been tight and net export demand sluggish.

The real flow of net lending, though very high (nearly 10 per cent of income at end-1997), is still below previous peaks. It can go on rising for a time but this cannot continue forever – surely not more than a year or two at most. My concern is that when expansion of net lending slows or falls, there will be nothing to keep the US economy from stagnation, since fiscal policy remains restrictive and net export demand is falling fast. The effects of any turn round in lending would be aggravated if there were a fall in the stock market.

Wynne Godley, Jerome Levy Institute, Bithewood, Amundale-on-Hudson, New York 12564-5000, US

EU must grasp opportunity to introduce tough code on control of weapons sales

From Mrs Glensy Kinnock and others

Sir, Foreign ministers of the European Union have a vital opportunity today to introduce tough new controls on weapons sales. The EU general affairs council meets in Brussels to thrash out the final details of a code of conduct "setting high common standards governing arms exports from all EU countries".

While this is a commendable achievement, key elements of the code remain unresolved. In the final negotiations it is crucial that EU governments adopt controls at the highest possible level if the code is to be effective and meet its important stated objective. The imperative to do so is particularly relevant with the impending restructuring of the European defence industry. This will put pressure on EU member states with restrictive national arms export controls to lower them in order to remain competitive.

Tougher, unequivocal export guidelines, particularly on human rights, are essential. Furthermore, the mechanisms for consultation between member states on the granting of export licences must be strengthened if they are to have a noticeable impact on undercutting – the practice of one EU government granting export licences that another government has refused. The code must also ensure that EU member states are accountable for their arms exports to national parliaments and, collectively, to the European parliament. There is presently no provision for this in the proposals.

If EU member states can agree on a strong code, and emphasise that it will be continuously reviewed and

strengthened, then they will set an important precedent for other international arms control initiatives. We urge European governments to make the important decisions in Brussels today which will have a real impact in helping to reduce the human suffering and regional instability caused by irresponsible arms exports.

Glensy Kinnock, UK, vice-chair of the ACP-EU joint assembly, Lord Plumb, UK, chair of ACP-EU joint assembly, Pauline Green, UK, leader of the party of European socialists, Wilfried Martens, Belgium, chair of the group of the Christian Democrats, Magda Alevat, Belgium, chair of the Green group, Christoph Konrad, Germany, member of the sub-committee on security and disarmament, Elisabeth Schroeder, Germany, member of the sub-committee on security and disarmament, Wilfried Telkämper, Germany, vice-president of the ACP-EU joint assembly, Heidi Hautala, Finland, member of the sub-committee on security and disarmament, Andre Soulier, France, president of the human rights sub-committee, Berna Malone, Ireland, member of the parliamentary delegation to the member states of ASEAN, South East Asia and the Republic of Korea, José Barros Moura, Portugal, co-ordinator of the socialist group for the human rights sub-committee, José María Mendiluce, Spain, vice-chairman of the foreign affairs committee, Carlos Carrero, Spain, member of the human rights sub-committee and foreign affairs committee, Francisco Saugella, Spain, member of the development committee, Concepción Ferrer, Spain, member of the human rights sub-committee, Manuela Frutos Gama, Spain, member of the women's rights committee, Anna Turren I Cusi, Spain, member of the committee for civil liberties, Joseph Pons Gran, Spain, member of the development committee, vice-president of the ACP-EU joint assembly, Jan Willem Barbe, The Netherlands, chair of the sub-committee on security and disarmament.

Debt analysis ignores facts

From Mr Stewart Wallis

Sir, Martin Wolf ("Soft heart, soft head", May 12) is correct in calling for the analysis of debt and poverty to "start from the facts". Unfortunately, he proceeds to ignore his own advice.

His criticism of Oxfam's view rests upon a dubious proposition that the scale of debt relief is irrelevant if the debtor nation is a net recipient of resources. Debt servicing levels are important because the fiscal burden they impose on poor countries is a formidable barrier to poverty reduction. Debt relief can lower that barrier if aid flows remain positive.

In Tanzania debt servicing absorbs more than 30 per cent of public spending – significantly more than basic health and education combined. This is a country where easily preventable dis-

ease claims the life of one child in six. Try telling Tanzanian children debt doesn't matter.

On conditionality, we have consistently argued that debt relief should be used as an incentive for poverty reduction. Governments willing to convert savings from debt relief into social investments would be rewarded with earlier and deeper debt relief, all subject to stringent international monitoring.

Such an approach would help to kickstart the International Monetary Fund-World Bank initiative which, for all Mr Wolf's protestations, is not realising its potential.

Stewart Wallis, international division director, Oxfam GB, 274 Banbury Road, Oxford OX2 7UE, UK

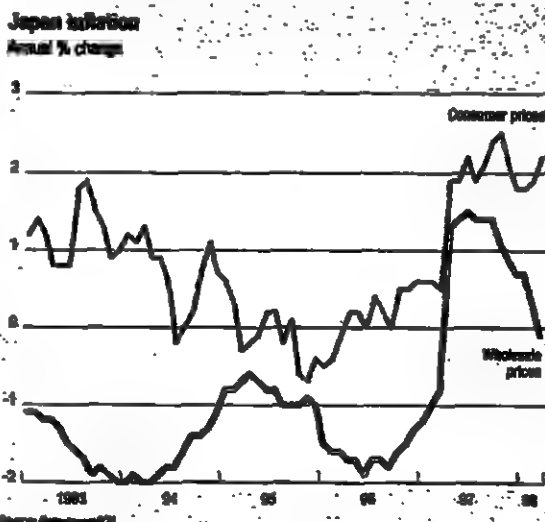
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ECONOMICS NOTEBOOK GILLIAN TETT

True debate takes a bow

The Bank of Japan's new independent status is prompting fresh ideas and unusually lively monetary discussions



more top executives are expected to leave soon. Consequently, only one of the bank's former top six officials has survived in post.

The upshot of this is that the board has produced something rare in consensus-loving Japan – a lively argument. Monetary policy is currently at an odd juncture, with voices in

appear to favour an interest rate cut later this year if the Japanese economy does not recover. This is partly because of deflation fears. Although retail price inflation was boosted by last April's 2 per cent consumption tax increase, wholesale prices are falling (see chart). "The wholesale price index

usually feeds through to the consumer price inflation after six months or so. So we may see negative price growth later this summer," Mr Ueda says.

Yet three others, including Masaru Hayami, the governor, oppose any rate cut, as this might weaken the yen and deflation may anyway be averted by the government's recently announced ¥16,700bn stimulus package. As Susumu Taketomi, another board member, says: "I think vicious deflation

can be avoided. I am cautiously optimistic about the economy."

This being Japan, disagreement is politely phrased: unlike the UK, the minutes avoid the embarrassment of showing who argued for what. The split is nevertheless still encouraging. Not only is it prompting far more media discussion about monetary policy, but it is also triggering innovative thinking about how to tackle Japan's policy mess.

Mr Ueda, for example, has one particularly attractive proposal. With the official discount rate at record lows, he recognises that further cuts may be ineffective. But the Bank of Japan could boost growth by injecting more liquidity into the markets. Alternatively, it could introduce a target for inflation or the monetary base.

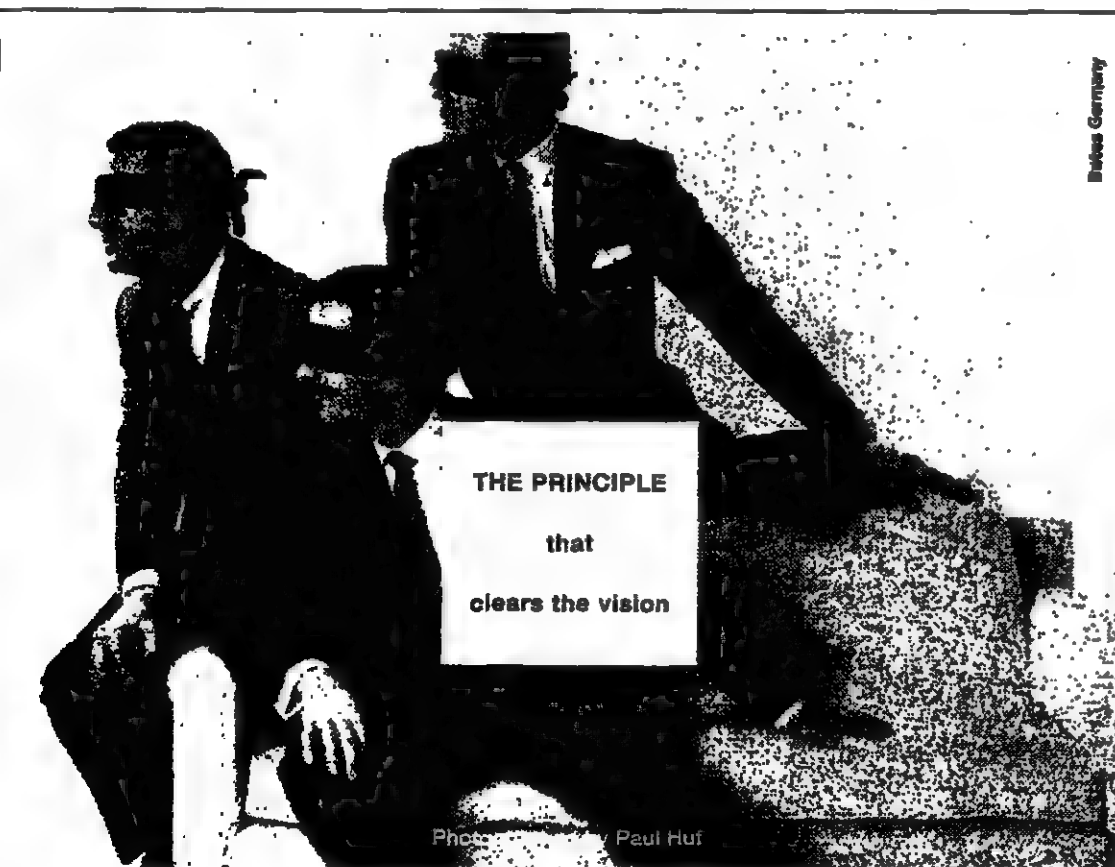
The motive for this, intriguingly, is completely the reverse of the normal western economic logic. Whereas the UK introduced an inflation target to reduce inflation expectations, Japan could use it to raise them, he says.

This would ease the market deflation fears that have pushed long bond yields down to 1.245 per cent. It would also persuade households, which are hoarding growing piles of cash, to invest their money more productively. "A target of 15 per cent growth in the monetary base or 1.5 per cent inflation rate would generate an increase in the expected rate of inflation. Right now that would be a good thing," Mr Ueda says.

The catch is that this might further weaken the yen, but he is unrepentant. Yen depreciation "is not necessarily a bad thing", he argues, as long as it does not trigger a broader equity market slump.

The proposal is eminently sensible. Sadly, though, the rest of the policy board does not seem quite ready to adopt his radical plan.

It is encouraging, however, that such ideas are at least being aired. Perhaps, over time, the cynics will be correct and the bank's policy board simply revert back into *tatemae*. It would be pleasant to hope instead that what has started at the Bank might spread to other parts of the government as well. Japan needs more men like Mr Ueda in government.



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is established in Frankfurt, Germany's prominence as a global financial center is destined to further increase.

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Monday May 25 1998

A stride on the path to peace

The transition to peace in Northern Ireland is a process rather than an event. The results of the twin referendums on the Good Friday political settlement marked another momentous step in the right direction, but it would be naive to ignore the obstacles which lie ahead.

The outcome of the vote in the province, with a small majority of unionists endorsing the agreement alongside the overwhelming majority of nationalists, was a tribute to David Trimble, the leader of the Ulster Unionists. Against the opposition of MPs in his own party as well as of Ian Paisley's Democratic Unionists and Robert McCartney's UK Unionists, Mr Trimble made and won the case for the politics of tolerance against the deep-rooted prejudices of sectarianism.

In the Irish Republic, the overwhelming backing for the removal from the constitution of the territorial claim to Ulster demonstrated once again the new maturity which prosperity and a more secular political culture have brought to nationalism. In the first all-Ireland vote since 1918, both jurisdictions have said the future of the North lies with the consent of its people.

For all the optimism this engenders – and momentum has been a critical factor in the peace process – there are those still determined to wreck the accord. The sour response of Mr Paisley and Mr McCartney confirms their purpose in next month's elections

is to win sufficient support to paralyse the Belfast assembly. In a perversion of logic, they have concluded that the principle of majority consent which they have long held dear cannot operate if they happen to disagree. So it is vital that unionist voters carry the spirit of reconciliation they have shown in the referendum through to the assembly elections. That means backing candidates dedicated to making the agreement work. Mr Trimble meanwhile has a mandate to demand that those in his own party who broke with his leadership during the referendum campaign now fall in behind it.

There are several other potential flashpoints. The weekend seizure by Irish police of a huge bomb destined for the North was a reminder of the danger still posed by Republican splinter groups – and of the need for Gerry Adams to offer unequivocal proof of Sinn Féin's commitment to peace. The traditional summer marching season will demand painful compromises from both unionists and nationalists. The thorny issue of the decommissioning of paramilitary arms looms on the horizon.

Moderate unionism will need reassurance from both the London and Dublin governments that the new political framework is neither a capitulation to terrorism nor a threat to the union. But durable peace in Northern Ireland is now a prospect rather than a pipedream.

Past tense, future hopeful

Ireland's political landscape has changed but the battle for hearts and minds rolls on, says **John Murray Brown**

It was W.B. Yeats, the Irish poet, who summed up the mood of fear and excitement after Ireland's Easter rebellion against British rule in 1916 with his famous couplet:

*All changed, changed utterly:
A terrible beauty is born.*

This weekend, the mood in Belfast and Dublin seemed to justify that oft-quoted phrase once more: that Ireland's political landscape has been "changed, changed utterly" as referendum voters north and south of the border gave a resounding joint endorsement to the Good Friday agreement. At its core this offers a chance to heal the divisions between nationalism and unionism, and bury the violence of the past.

On the other hand, the vote has left Ulster unionists deeply and bitterly divided as never before, with not far short of half the Protestant population of the province having opposed a deal.

Nevertheless, with the accord backed by 71 per cent of voters in Ulster and 94 per cent in the Irish Republic, the result will be impossible even for the No camp to ignore. "History... History Maker" proclaimed a campaign poster with the faces of The Rev. Ian Paisley and David Trimble, leaders respectively of Northern Ireland's Democratic Unionist and Ulster Unionist parties.

But an equally seismic shift has occurred on the republican side with Gerry Adams, president of Sinn Féin, poised to take his party from its pariah status (in the eyes of successive British governments) to the threshold of sharing in the government of a province which it is dedicated to destroy.

For once, the elegiac pleas of John Hume, leader of the moderate nationalist Social Democratic and Labour party, "to end this out-of-date quarrel" seemed totally appropriate. Other political figures from the recent past were also quick to recognise the significance of the result. "It is one of the great moments. There was 1916, there was the 1921 treaty [which partitioned the island] and there was this, the three turning points in our history," said Garrett Fitzgerald, the former Irish prime minister.

The result hardly seems possible given that just six months ago, the multi-party talks at Stormont were bogged down over procedural wrangles.

At that stage, unionists must have believed Sinn Féin would never be able to convince its members to drop its ban on taking seats in what republicans have traditionally dismissed as "a partitionist" assembly.

Yet today, after 26 years of direct rule from Westminster, Sinn Féin and the other local politicians will have a chance to shape their own destiny together by sharing in government. The agreement also envisages cross-border bodies to foster co-operation.

In answer to unionist concerns that the measures were a staging post to a united Ireland, the deal commits all parties – including Sinn Féin – to the principle that the constitutional status of the province can be changed only with the people's consent.

Joe Lee, professor of history at Cork University, says this means the great constitutional debate "is in cold storage for probably another generation or at least until the demographics change".

If the accord is a compromise between the constitutional parties, it is also a challenge for Sinn Féin – and its loyalist counterparts – to renounce violence. With unionists insisting Sinn



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shoulder to shoulder with the DUP in opposition to that year's Anglo-Irish Agreement. On Saturday, they were calling Mr Paisley as "yesterday's man". That may prove premature, with Ulster's vote weary electorate set to go the polls again on June 25 to elect members of the 108-seat power sharing assembly.

Hardly were the polling stations closed than some of the smaller parties were dispatching officials to take down their campaign posters ready to recycle

finding himself on the same side in the referendum campaign, Mr Trimble still could not bring himself to address Mr Adams directly during a television debate after the count on Saturday, although they did share the same studio for the first time.

But there was noticeably more acrimony between the Paisleyites and the small loyalist parties who supported the deal. In 1965, these groups would have stood

under its control. But it looks as if even PFIAS wants to give the sector a bit of a wash and brush-up – it is nominating Golden to the board.

under its control. But it looks as if even PFIAS wants to give the sector a bit of a wash and brush-up – it is nominating Golden to the board.

OBSERVER

In place of strife

Three years ago in Moscow, Michael Leathes and Kirill Ivanov decided that a new way had to be found of sorting out commercial disputes involving investors in Russia.

The corporate lawyer – Leathes has worked for Gillette, Pfizer and GrandMet and is now with BAT – and the former Russian deputy minister for foreign economic relations decided, in Leathes's words, "there has to be a better way than litigation and pouring money into the pockets of lawyers."

Russian contracts provide for arbitration to settle disputes but the Russian arbitration courts are logjammed with 300 cases, and others are pending at arbitration centres around the world.

The solution, the two decided, was mediation, a concept applied around the world to settle disputes in everything from marriages to property rights. They collected a steering group of like-minded people who will launch in September an organisation called Peaceful Settlement, offering mediation from offices in London, Washington, Moscow and Kiev.

Anatoly Adamishin, former Russian ambassador to London, has agreed to be a trustee, as has Dr David Owen, the former British Foreign Secretary who once did one of the world's toughest mediation jobs – in Bosnia.

Late tackle

Mexico's financial reform package – which includes a bailout of the country's struggling banks – has hit trouble.

The centrepiece of President Ernesto Zedillo's economic programme seemed to be set to pass into law until soccer-crazed legislators told the president nothing could be allowed to interfere with the football World Cup in France.

Deputies say they don't want to distract the nation from such an over-riding passion as football, but the delay may have less to do with the people's attention span and more to do with how many of their elected representatives are in possession of tickets for the soccerfest.

Congress went into recess at the end of April. Since then, legislators have been unable to agree on a

Golden chance

Are things really changing in the Czech Republic's seedy capital markets? There was one hopeful sign last month when Jan Müller, one of the stock exchange's leading critics, was chosen to head the bourse's new watchdog.

Now Howard Golden, the scourge of Czech investment funds, is today set to join the supervisory board of the Restitution Fund, the country's biggest closed-end fund.

Golden, a New York-based fund manager, got his fingers burned a few years back when he put money into Czech investment funds only to find that managers felt free to loot the assets. Since then, he has campaigned for better standards – and now becomes the first international fund manager to sit on a Czech fund's board.

Golden will have his work cut out at the Restitution Fund. It is managed by PFIAS, one of the most controversial outfits in the market, with which he tangled when it blithely merged several funds

Sound advice

In this time of financial chaos in Indonesia, the central bank has been looking for an adviser – and has invited Helmut Schlesinger, president of the Bundesbank in Germany's post-unification years.

Schlesinger, who retired from the German central bank five years ago aged 68, sounds just the man to stiffen Jakarta's monetary backbone. He was once accused by James Baker, former US treasury secretary, of looking under every stone for inflation.

Indonesia's new president B.J. Habibie, a fluent German speaker, might welcome the central banker's reassuring presence. But don't expect Schlesinger to have any truck with Habibie's eccentric "zigzag theory" – that you can boost the economy by a series of interest rate cuts and rises. That kind of radical thinking is enough to give the 40-year Bundesbank veteran heartburn.

Grève issue

Not all French workers are happy with the new law cutting the maximum working week from 39 to 35 hours – the state's own labour inspectors have just gone on strike. Apparently making sure everyone else works less means more work for them.

man. This raises the intriguing possibility that the DUP leader could be seeking and perhaps giving "transfers" with the SDLP candidate under the proportional representation system.

But the overall expectation is that voting patterns, having crossed sectarian and religious lines in the referendum, will return to type, although the electoral system will allow for tactical voting.

Sinn Féin has already called for electoral pacts with the larger SDLP to avoid splitting the nationalist vote in constituencies. Mr Hume yesterday suggested his party would probably seek transfers from all parties.

But some detect in this a sign that Sinn Féin expect its share of the vote may fall. Polls suggest support for Sinn Féin may have peaked, with the SDLP and Mr Hume widely seen as the architects of the peace process.

For a party which has made much of its move to electoral politics from armed struggle, any evidence that Sinn Féin's vote has slipped will be awkward to sell to its grass roots.

The fight within unionism is certain to be much tougher, as Mr Trimble attempts to counter Mr Paisley. The DUP will be seeking to translate the 28 per cent No vote into seats in the assembly. Sydney Elliott, a lecturer at Queen's University in Belfast expects the DUP will be looking to invoke a clause in the agreement that allows amendments to be tabled if they are supported by 30 or more assembly members.

But Friday's poll has shown that the politics of majorities and minorities has been shattered, with Protestants and Roman Catholics – many of them for the first time in their lives – voting on the same side.

The psychological effect cannot be underestimated. "It was the first time that I know I am voting with the majority," said Monica McWilliams, leader of the Women's Coalition and a Catholic.

The DUP is still clinging to the claim that a majority of unionists have not backed the deal. Indeed, to listen to Mr Paisley's Democratic Unionist argue over the numbers, you might think the Catholic vote did not count. But the wide overall margin between the Yes and No vote should be enough to see the deal take root in both communities.

More broadly, the poll raises hopes for a wider reconciliation between the communities, which has already started at grass roots level. "Is it back to the days of Barry McGuigan?" asked one radio commentator, referring to the Catholic boxer who brought back the world title to the cheers of both communities.

The referendum victory is clearly only the first step. For relatives of the victims of the violence – the more than 3,000 people killed – the poll was a mixture of pain and relief.

The marching season, which reaches its peak with the Protestant Orange Order's Drumcree parade on July 5, could prove a battleground for sectarian division.

Meanwhile splinter groups may yet seek to undermine the deal. But the news priorities of the local television station summed it all up. After switching from the count station to the various outside broadcasts, it relegated reports of would-be terrorism to the end of the bulletin. If the result consigns the men of violence to a bit part role, it is already a considerable achievement.

Less majesty

The sins of the father are still visiting Japan's Emperor Akihito. When he arrives in London today as part of a two-week European goodwill tour, he will find the past has travelled with him. The most obvious reminder will be protests by British prisoners of war demanding a frank apology, as well as cash compensation, for hardships suffered during their time in captivity. Another sign of the ghosts to be exorcised will be the stilted performance of Akihito himself, still searching for a public identity befitting the late 20th century.

There are two causes of the emperor's discomfort. He and his retinue are aware that his father's role as a religious symbol served as a rallying point for the Japanese military before and during the second world war. The Greater East Asia Co-Prosperity Sphere was brutally accumulated in the name of Emperor Hirohito, and Akihito does not want his own name abused.

Less honourable are the motives of traditionalists, some of them on the emperor's staff, keen for him to keep a godly distance. After the war, Hirohito renounced his divinity, but the understanding remains that his son is descended from the divine. The traditionalists want to emphasise this sacred state by limiting his contact with mere mortals.

Akihito has tried to humanise

the imperial family. He encouraged the release of photographs of himself at ease in a Volkswagen Beetle, and gives the occasional, if carefully controlled, press conference. His visit to London should provide an opportunity for him to swap notes on further reform with a British monarchy examining its own role.

Late last century, in seeking to build the imperial profile, Japanese officials sought inspiration from the British monarchy and its ceremonies. But the visit to London will be more controversial than his stops in Portugal and Denmark.

It is appropriate for Emperor Akihito to find a form of words to address the war, without crossing the line that forbids involvement in politics, but the question of compensation is not one for him. Legally, the Japanese government made amends in signing the San Francisco Treaty in 1951. And if the relatively small number of British victims are compensated, what of the millions of Chinese and Koreans maltreated earlier this century? And what of those Asians who suffered under European colonial rule?

For history to haunt the Emperor no more, he needs to find a public personality that makes sense in modern Japan. His small steps toward a secular, approachable monarchy are clearly in the right direction.

Financial Times

50 years ago

Air Freight in The United States

One of the fastest growing industries in the United States is the transportation of freight by air. The 16 scheduled domestic airlines carried 1,400,000 ton-miles of freight in 1945, about 20,000,000 in 1946, about 40,000,000 in 1947, and expect to carry 80,000,000 in 1948. But the "non-scheduled" all-cargo carriers' business has grown even faster, and is now estimated to be running 80 per cent larger than that of the regular passenger-carrying airlines. Regular American passenger airlines flying international routes carried almost 15,000,000 ton-miles of freight in 1946 and 34,000,000 ton-miles in 1947. T.W.A. has two DC-4's flying all-cargo to Europe and India.

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THE LEX COLUMN

Euroland's capital City

What does monetary union mean for Europe's financial centres? Will Britain's decision to stay out of the first wave enable Frankfurt to wrest leadership from London? Or is the City's dominance of European finance so well entrenched that being out on a limb makes no difference?

The answers are not crystal clear, but the best guess is that both Frankfurt and London will benefit. The creation of a single European capital market on Anglo-American lines will generate a huge amount of new business: more equities, bonds and M&A activity. Both cities will capture a share of this. But by being on the outside, London will not gain as much as it could. The most likely scenario is merely that a big opportunity is partly missed. There is, though, a small risk that things could turn out worse.

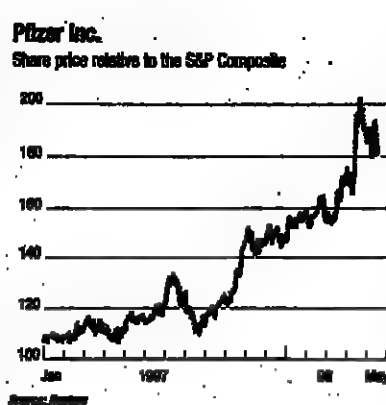
Specialists v salesmen

As well as boosting the total level of financial activity, Emu will shift its location - but not in a single direction. Until now, investment banks needed traders, analysts and M&A specialists in each market. In a borderless capital market, it will be more cost-effective to concentrate these "specialist" activities in single centres.

Given the City's position as Europe's biggest financial centre, the tendency will be to congregate in London. But this will not be so in every case. Each bank will probably focus specialists where it already has critical mass. Deutsche Bank seems to be homing in on Frankfurt. The Swiss and US banks will probably focus on London. The losers are likely to be second-tier financial centres, such as Paris and Milan.

Not all activities will consolidate. As the capital markets expand, investment banks will need sales executives all over Euroland. Servicing all European corporates and investors by parachuting people in from London will no longer work. Local relationships will be at a premium. Indeed, the most aggressive US investment banks, such as Goldman Sachs and Merrill Lynch, are already building local operations.

Putting salesmen in the field is likely to benefit all the Continent's financial centres - this time at the expense of London. The biggest gainer will be Frankfurt. At



present, purely domestic capital market activity is much higher in the UK than in Germany. But the growth in Germany will be faster precisely because it has so far to catch up.

Eventually, Frankfurt could have a hinterland to rival London's. After all, the German economy is nearly twice as big as Britain's. Frankfurt could become a financial hub for eastern Europe too. Moreover, the distinction between sales executives and specialists may not be quite that neat. If a large mass of sales executives congregates in Frankfurt, the demand for the specialists to join them will increase.

Political symbols

Politics will also favour Frankfurt. Being home to the European Central Bank will be an advantage, even if it is mainly symbolic. The same goes for the current battle between Frankfurt's DTB and London's Liffe. If the DTB wins leadership of Europe's derivative markets, traders will not automatically shift to Frankfurt; after all, the DTB's system means that people can trade from anywhere. But such symbols can act as magnets for real activity. If Frankfurt assembles a few more of these - perhaps emerging as the leading exchange for Euroland shares - its pulling power will strengthen.

Finally, there is the worry that continental countries could try to rig the rules of Europe's capital markets to disadvantage London - something Britain finds harder to fight as a non-member of Emu.

That seems to be what is happening in the attempt to promote Euribor rather than London's Libor as the benchmark for Euroland's money markets. Meanwhile, the European Commission's scheme to impose a withholding tax on bond issues could drive the eurobond market offshore - damaging the City.

Of course, London retains powerful advantages: a long-standing capital market culture, light-touch regulation, a large pool of sophisticated employees, and a tax system that appeals to highly-paid bankers. All this should ensure it remains the top European financial centre. But complacency is out of place. And if Britain stays out of Emu indefinitely, the worries will mount.

Pfizer

What goes up must come down. This holds even for Pfizer's remarkable share price, which has been pumped up by the hugely successful launch of its Viagra impotence treatment.

In fact, Friday's 3 per cent drop in Pfizer's stock - after a gain of 45 per cent this year - was, rightly, a rather modest reaction to news that Viagra may have been a factor in the death of six people. While tragic, these deaths on their own do not look statistically significant. After all, Viagra has already been taken by over 1m people. Pfizer has taken pains to point out that it should not be taken in conjunction with certain heart medicines - but perhaps some patients did so. Unfortunately, this is the kind of lifestyle drug that people will try without seeking proper medical advice. That, of course, is also what drives its unprecedented success.

With no palatable alternatives, many people will be prepared to run some risk in return for what they consider to be quite tangible benefits. Unless further problems emerge, it seems too early to pare back sales expectations for Viagra of \$200-\$300m by 2002.

Investors should also remember that Pfizer has one of the broadest and most promising drug pipelines in the industry. While the hype surrounding Viagra has probably been overdone, the group is preparing to launch an anti-erbist treatment that could turn into its next blockbuster.

Japan may scale down its financial corruption probes

Government signals end to a year of damaging allegations

By Gillian Triggs in Tokyo

The Japanese government appears to be abandoning its high-profile investigations into financial corruption among bankers and bureaucrats.

Katsuhiko Kumazaki, the Tokyo prosecutor who spearheaded the anti-corruption campaign, will be transferred next month to Toyama, a remote rural district, officials have indicated.

His move has not yet been officially approved but it would come after Mr Kumazaki's team investigating financial corruption was cut from 70 people to about 30 last month.

This suggests the government is now trying quietly to wind up the investigations which have badly tarnished the reputations of many prominent institutions and officials in the financial community, including the Bank of Japan and the Ministry of Finance, over the past year. One government official said:

"There is a political battle going on. But I think this means the scandals are ending."

The scandals have focused on two main issues: the payment of "hush money" to racketeers by some of the country's largest banks and securities companies, and the provision of lavish entertainment to government bureaucrats by banks and securities companies in exchange for favours.

A halt to the investigations would come as a relief to all involved. Since the allegations started to appear last spring, they have taken a heavy toll on the financial industry. More than 80 bank and securities company executives and about 10 senior bureaucrats have resigned from three large securities companies temporarily suspended from the markets.

Six suicides have been triggered by the scandals. However, a suspension of the investigations might prompt criticism from opposition politicians that the government was backing away from its commitment

to clean up Japan's financial system.

Some western investors are expressing growing frustration about the government's failure to overhaul its system for regulating financial institutions.

Last month a group of European banks warned that the shortcomings of the existing regulatory system, dominated by the Ministry of Finance, could undermine the Big Bang deregulation programme.

The government insists it is improving the regulatory system. A new financial supervision agency, which will be officially independent of the finance ministry, is to take over responsibility for regulating banks.

However, the government admitted last week that the agency's launch had been delayed by three weeks. It has named Masaharu Hino, a former prosecutor, to head it, but operational details remain unclear.

Postal savings system faces loss, Page 4

Ministers urge Habibie to bring in reform to secure IMF aid

By John Hidding and Sandra Thomas in Jakarta

Indonesia's new president, B.J. Habibie, came under pressure from his own government ministers yesterday to produce a plan for political reform that would release International Monetary Fund aid for his stricken country.

One of Mr Habibie's top economic ministers, Ginandjar Kartasasmita, said he and his team were willing to serve for no more than "one or two months", since it was imperative that general elections be held as soon as possible.

Five other ministers supported Mr Ginandjar's declaration, which increased pressure on Mr Habibie to abandon his intention of staying in office until 2003, the year former president Suharto's term had been due to end.

One opposition leader, Amien Rais, said Mr Habibie had promised on Saturday he would hold a general election within one year. He had also pledged to set up a council of opposi-

tion figures to advise on reform and to release two prominent political prisoners today, Mr Rais said.

A senior aide to Mr Habibie, who replaced Mr Suharto last Thursday, urged a rapid resumption of a \$430m IMF-sponsored rescue package in order to stabilise the economy and prevent more social unrest.

But finance ministers from the Asia-Pacific region, meeting in Alberta, Canada, at the weekend, indicated political reform was a precondition for a resumption of international lending to Indonesia.

"What struck me was how broad-based the view was that those economic reform programmes will only work in the context of a political situation that's working," said Robert Rubin, the US treasury secretary. The IMF suspended its programme after more than 500 people were killed in civil unrest this month. It says it needs time to review Indonesia's political situation.

However, Indonesia's neighbours want fast action. They said restoration of confidence in Indonesia,

whose gross domestic product is expected to fall by more than 10 per cent this year, was vital to prevent more upheaval. The IMF had been due to disburse a \$10m loan on June 4 as part of its rescue package. The Asian Development Bank, which has also delayed a loan programme as a result of Indonesia's political crisis, said it hoped to reach a decision this week on whether to go ahead with a \$1.5m loan.

Despite continued fears of political unrest, Mr Suharto's departure and the restoration of calm in Jakarta have encouraged many businesses to return to Indonesia. Banks, oil companies and investment banks are among those planning to bring staff back this week, having sent executives and their families abroad when the unrest broke out.

Many ethnic Chinese business people targeted in Indonesia's riots are also starting to return. Flights to Jakarta from Singapore and other regional capitals are heavily booked.

Reports, Page 4; Observer, Page 13

CONTENTS

News

American News	5
Asia-Pacific News	4
International News	23
UK News	6
Weather	14

Features

Guide to the Week	30
Inside Track	8-10
Art	11
Editorial	18
Letters	12
Observer	13
Crossword Puzzle	30

Companies & Finance

News	15,17
Companies in this issue	15
Global Investor	17
Market Movers	17
International Bonds	18
FT Guide to World Currencies	20
Emerging Markets	27
Markets Week	19
New International Bond Issues	19
Companies Diary	19
Money markets	20
Recent issues, UK	19
London share service	22,23
Managed funds service	24-25
World stock markets	27
FTSE/PA World Indices	28,29
New York Stock Exchange	28,29
World markets at a glance	18
Economic Diary	30

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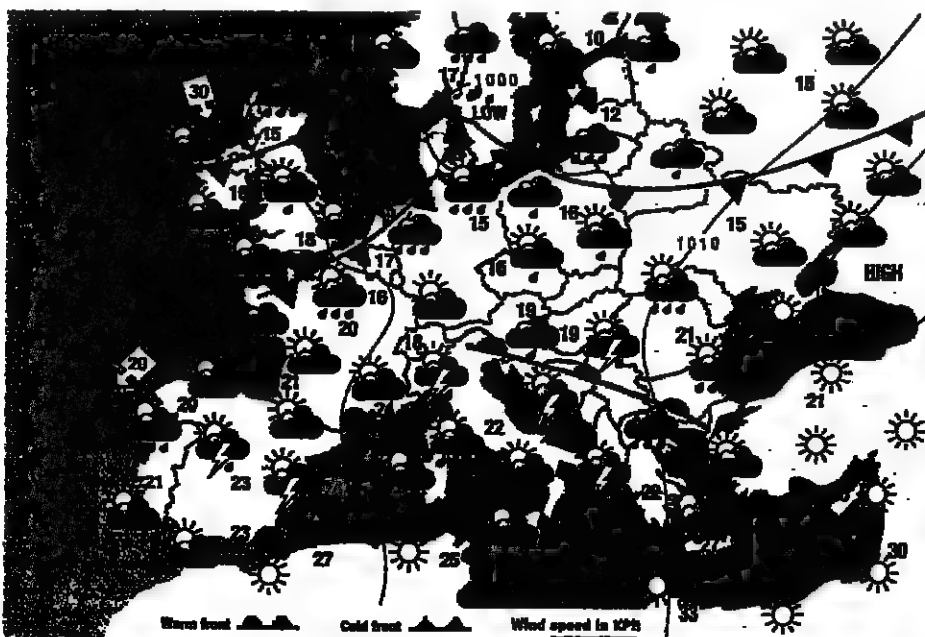
FT WEATHER GUIDE

Europe today

Low pressure will keep most of the Nordic countries cool and unsettled with showers or longer periods of rain. Northern parts of Scandinavia will still be cold enough for a little sleet or snow. Central and eastern Europe will also have showers, although eastern parts will be mostly fine. The Low Countries and northern France will be showery. Italy and the Balkans will have heavy rain and thunderstorms, as will central parts of the Russian peninsula, but the rest of the Mediterranean will be fine and dry.

Five-day forecast

Low pressure will continue to dominate for the week ahead. Most parts will be unsettled with rain or showers, and it will turn cooler in the north-west. There will be more thunderstorms in the central and western Mediterranean, although the east should stay reasonably fine.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

TODAY'S TEMPERATURES			TODAY'S TEMPERATURES		
Madrid	22	Shower	Paris	21	Shower
Barcelona	22	Shower	London	19	Shower
Calcutta	22	Shower	Delhi	22	Shower
Abu Dhabi	37	Shower	Beijing	15	Shower
Azores	20	Shower	Bombay	28	Shower
Algeria	27	Shower	Buenos Aires	21	Shower
Amsterdam	15	Shower	Caracas	28	Shower
Athens	22	Shower	Chicago	15	Shower
Atlanta	23	Shower	Cairo	24	Shower
Bombay	28	Shower	Dallas	21	Shower
Buenos Aires	21	Shower	Dubai	28	Shower
Caracas	28	Shower	Hankow	18	Shower
Chicago	15	Shower	Hong Kong	28	Shower
Cairo	24	Shower	Los Angeles	21	Shower
Dallas	21	Shower	Manila	28	Shower
Dubai	28	Shower	Medan	28	Shower
Hankow	18	Shower	Montreal	18	Shower
Hong Kong	28	Shower	Moscow	15	Shower
Los Angeles	21	Shower	Nairobi	28	Shower
Manila	28	Shower	Rangoon	28	Shower
Medan	28	Shower	Sao Paulo	28	Shower
Montreal	18	Shower	Singapore	30	Shower
Moscow	15	Shower	Stockholm	12	Shower
Nairobi	28	Shower	Taipei	28	Shower
Rangoon	28	Shower	Tokyo	21	Shower
Sao Paulo	28	Shower	Toronto	18	Shower
Singapore	30	Shower	Winnipeg	18	Shower
Stockholm	12	Shower	Zurich	18	Shower
Taipei	28	Shower			
Tokyo	21	Shower			
Toronto	18	Shower			
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Week 22

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INSIDE

Swedish car groups to set out plans for route ahead

Saab and Volvo, the Swedish vehicle makers, will this week set out their strategies for capturing a larger share of the executive car market. On Thursday, Volvo launches its new large car, the S80. Today, Saab is due to announce an expansion of its three Swedish plants. Both hope their plans will secure their market share and capture new sales. But there the similarities end. Page 17

German market optimism continues

Analysts believe optimism about the German share market is set to continue because companies are still benefiting from restructuring and strong export growth. The domestic economy is also improving, although no change in interest rates is expected. Shares closed stronger in Frankfurt on Friday. The Dax index of 30 blue chips ended up 16.7 points at 5,530.2. Markets Week, Page 19

Russian bourse faces testing times

The Russian Trading System index of the most liquid stocks fell 2.1 per cent on Friday, ending a week in which share prices dropped nearly 13 per cent. Those investors who pushed the market to its peak less than nine months ago are now avoiding it like the plague. Emerging Markets, Page 17

El Al overcomes tourism crisis

El Al, Israel's state-owned airline slated for privatisation, cut losses from \$80m in 1996 to \$4m last year in spite of fewer incoming tourists, according to 1997 results. The improvement is expected to help government efforts to begin the airline's long-awaited privatisation. Page 17

Yen holds key to Nikkei rise

Investors will be watching to see if the benchmark Nikkei 225 index threatens the 18,000 point mark. Much depends on the performance of the yen, which last week continued to deteriorate against the dollar. Markets Week, Page 19

Ence attempts to raise its profile

A merger is being considered between Ence of Spain and Portugal Industrial of Portugal, the Iberian Peninsula's two main pulp makers. But stock market fluctuations have meant the Portuguese company is worth about 80 per cent more than the Spanish. Ence is now trying to boost the stock by raising its profile. Market Movers, Page 17

Euro focus moves to Bundesbank

The political situation in Indonesia and speculation ahead of a Bundesbank council meeting will be focal points of European equity and fixed-income markets. With New York and London markets closed for public holidays, trading on continental bourses may lack direction. Equities, Page 21

UK investors will look to results

Results will be the focus of the UK market, as privatised companies including Anglian Water, BAA, Energy, South West Water, United Utilities and Yorkshire Water, release their firms. Page 19

FT GUIDE TO THE WEEK

— full listings Page 30

SPANISH TRIAL

The trial begins in Spain's supreme court today of former interior minister José Barionuevo and 11 others, including eight police officers, over the "dirty war" carried out against Basque terrorist suspects in the mid-1980s.

TRANSPORT AGENDA

A two-day European Union transport ministers' conference opens in Copenhagen on Tuesday. The agenda includes railway policy, modern technology, investment and road transport.

DANISH REFERENDUM

Denmark holds a referendum on Thursday on revisions to the European Union's Amsterdam treaty which would pave the way for EU enlargement eastwards and a common policy on refugees and asylum.

COMPANIES IN THIS ISSUE

Anders	17	Iceland	18
Avul Springer	17	J.P. Morgan	18
Bank Hapoalim	18	Kirch	3
Bank of New York	18	Lufthansa	2
Berlebach	3	Merubani	4
British Airways	2	Microsoft	18
Cantor Fitzgerald	18	Mirror Group	18
Crédit Lyonnais	18	Mitsubishi Heavy	18
Dell Computers	18	Morimoto	18
El Al	17	NTT	18
El-Aquitaine	17	Nestle	18
Ence	1	Onfarm Holdings	18
Fujitsu	17	Portugal	17
Gap	1	Rover	1,2
Gap	1	SBC	5,17
Geoprom	2	Sab	17
General Electric	4	Silbert	1
General Motors	4	Telecom Italia	18
Hennes & Mauritz	1	UES	5,17
Hisco	4	Unilever	18
Independent Newspapers	18	Volvo	17
Intl Properties	18	Yukos	1

MARKET STATISTICS

Base lending rate	20	Foreign exchange	20
Benchmark Govt bonds	20	London recent issues	18
Companies day	19	London share service	22,23
Debt and company mgt	19	Managed funds service	24-26
FTSE-100 World Index	27	Money markets	20
FT 100 index	19	New int bond issues	20
FT 100 index	19	Stock markets at a glance	20

Interest in Mirror could attract rival suitors

By Cathy Newman and Jonathan Sefton in London

Other companies are expected to approach Mirror Group, the tabloid newspaper owner, following last Friday's announcement that Axel Springer, the German group, is considering a takeover bid. Although it is not certain that Springer, owner of Bild, a German tabloid newspaper, will come up with a formal offer, observers believe the news will flush out a rival

suitor such as Tony O'Reilly's Independent Newspapers. On Friday, Springer - which had first denied market rumours that it was mounting a bid for Mirror - said it was considering several "opportunities", including an offer for the company. Guss Fischer, the new head of Springer, telephoned David Montgomery, chief executive of Mirror, at his Italian villa over the weekend. However, no offer has materialised. Mirror has looked vulnerable

to a bid for some months as its share price has been depressed by City doubts about strategy and management. Last year's acquisition of Midland Independent Newspapers, the regional newspaper group, failed to revive its shares. Independent Newspapers has been mooted as a bidder before and recently bought out Mirror's 46 per cent interest in the UK's independent newspaper and its Sunday sister paper. However, analysts doubt whether Mr O'Reilly

would be prepared to pay an acceptable price to Mirror and whether his group would get regulatory clearance. Independent Newspapers could not be contacted for comment. Analysts had originally predicted a 200p a share deal from Springer, valuing Mirror at about £1.2bn (\$2bn). However, Mirror sources have suggested it will hold out for more than 300p a share. Takeover speculation may hasten the decision on a new chairman at Mirror, and Victor

Blank, former chairman of Charterhouse Bank, is expected to be appointed. An experienced City figure, Mr Blank advised Mr O'Reilly in 1994 on the purchase of an initial stake in the Independent parent company, Newspaper Publishing, to prevent Mirror gaining full control. Mr Montgomery is understood to have been in talks with Telewest Communications, second largest cable TV operator in the UK, offering his services as chief executive.

Crédit Lyonnais to kick off new rescue plan with shares sale

By Andrew Jack in Paris

Crédit Lyonnais plans to sell up to a third of its shares to institutional investors before the end of this year as the first stage towards the privatisation agreed in a new rescue plan approved by the European Commission last week.

In an interview with the Financial Times, Jean Peyrelevade, chairman of the state-owned bank, said he hoped to sell significant minority stakes to a number of friendly financial institutions by December at the latest.

The move would come ahead of a privatisation of the majority of Crédit Lyonnais' shares by public flotation on the Paris stock market in 1999, in line with commitments given to the European Union competition authorities to reduce the state's stake to 10 per cent or less by the end of October next year.

Mr Peyrelevade also indicated his interest in merging with another bank in the months following the privatisation. "I don't think our future is one of absolute independence. We have to consider the concentration in the European banking sector."

A final decision on the way Crédit Lyonnais is privatised rests with the French government, which directly and indirectly controls 83 per cent of the bank's capital. But the current leftwing administration has shown considerable sympathy to the approach favoured by the bank's top management.

Mr Peyrelevade said that a small group of friendly investors - likely to include the German insurer Allianz and one or more US pension funds - would be offered new shares in Crédit Lyonnais as part of his efforts to raise FF900m-100m (\$100m-€160m) in new capital

to reinforce the solvency ratio ahead of a full privatisation.

Separately, an independent valuation this autumn will determine the number of additional Crédit Lyonnais shares to be given to the French government as a way for the bank to cancel a penalising loan and a profit participation clause agreed as part of its original 1995 rescue plan.

These shares - likely to have a total value of FF200m-250m - will dilute the bank's existing non-voting certificates d'investissement, which are quoted on the Paris stock market.

Mr Peyrelevade confirmed that Crédit Lyonnais would move swiftly to respect the engagement imposed by Brussels to sell operational assets, including its Belgian subsidiary, by the end of this year. However, he stressed that "nothing vital" among its activities in New York, Tokyo,



Crédit Lyonnais chairman Jean Peyrelevade indicated his interest in merging with another bank soon after the state-owned bank's sell-off

Hong Kong, Singapore and eastern Europe would be sold.

He said that if Crédit Lyonnais had a market capitalisation of FF900m-100m, that would make the prospect of a hostile takeover costly and difficult. But he said he was open to "free and friendly" discussion with potential banking partners about a merger. "My office is open, and I am waiting for flowers and chocolates," he said.

Sterling suffers in move to protect Ecu assets

By Richard Adams in London

Sterling's sharp fall on the foreign exchange market has been exacerbated by investors selling the pound to protect assets denominated in European currency units, according to J.P. Morgan, the investment bank.

Armanah Persaud, currency strategist at J.P. Morgan in London, estimates that between \$12bn and \$20bn of sterling - more than the UK's

projected current account deficit for 1998 - is being sold forward before the start of European economic and monetary union.

Sterling is part of the basket of currencies making up the Ecu. Sterling's recent decline, started by weak UK economic data, has driven the Ecu down and sparked a rush by Ecu bond holders to hedge their positions by selling sterling.

Ecu investors are borrowing sterling and selling it against

the Ecu, in contracts for settlement after January 4 1999, when the euro begins trading. That way they will be compensated for any further fall in sterling.

Ecu-denominated bonds have attracted investors because of the European Union's decision to convert Ecu for euros at a rate of one to one after January 1999.

But although the UK will not join the single currency, sterling still makes up 13 per

cent of the Ecu, the basket of currencies of EU member states.

"It's a unique situation," said Mr Persaud. "The sterling exposure cannot be ignored. When sterling fell from DM3.10 to DM2.80 in just 26 days earlier this year, this equated to a 100 basis point (one per cent) fall in the value of the Ecu versus the D-Mark."

At the end of March sterling rose to its highest level against the D-Mark since 1989. Since

then it has fallen 34 pence, or nearly 8 per cent, to below DM2.87.

Sterling initially fell as weak UK economic data suggested interest rates were unlikely to rise further.

J.P. Morgan forecasts that sterling will fall to DM2.70 against the D-Mark by the end of this year - but will bounce back above DM2.80 when the forward contracts expire and holders unwind their positions by buying pounds.



PETER MARTIN
GLOBAL INVESTOR

Sharing high expectations

The American company that has shown the best three-year total return is Dell Computer, which pays no dividends but has generated returns of 2,619 per cent to its shareholders over that period.

Dell is a wonderful company, which has transformed the industry in which it competes. Its direct-selling, build-to-order business model, with an emphasis on corporate sales, protects it from the bloodbath at the bottom end of the personal computer market. Investors have increasingly appreciated its strengths. Between December 1997 and April 1998 Dell's share price nearly tripled, to reach a high of \$68.50. Since then, along with other tech stocks, it has dropped back, closing on Friday at \$56.63. At that price it is still selling at nearly four times revenues, 60 times current earnings.

Can such a price possibly be justified? To raise the question is not to criticise Dell, which certainly deserves to be rated higher than its rivals. But the Dell case highlights the extraordinary expectations about the future built into present levels of share prices. Consider a comment from an experienced market observer, writing in 1984: "Instead of judging the market price by established standards of value, the new era based its standards of value upon the market price. Hence all upwardly disappointed not only upon the price at which the stock could sell, but upon the price it deserved to sell. This fantastic reasoning

actually led to the purchase for investment at \$100 per share of common stocks earning \$2.50 per share. The identical reasoning would support the purchase of these same shares at \$200, at \$1,000, or at any conceivable price."

This measured judgment comes from Benjamin Graham, the creator of modern fundamental stock analysis, writing on the "new era" thinking that produced the stock market bubble of the late 1920s. He went on to single out investment trust managers for particular criticism: "Investment trusts actually boasted that their portfolios consisted exclusively of the active and standards (ie, the most popular and highest price) common stocks. The man in the street, having been urged to entrust his funds to the superior skill of investment experts - the substantial compensation was soon reassuringly told that the trusts would be careful to buy nothing except what this man in the street was buying. Irrationality could go no further."

At least these days investors in indexed funds are not paying "substantial compensation" for their herd-mentality portfolios. People who worry about present levels of share prices tend to focus on the frothy "concept" stocks that emerge from nowhere, generate huge market value on the back of non-existent earnings, then disappear as quickly as they have come. But such stocks are not, in fact, the most

disconcerting feature of the bull market: since they are impossible to value properly, an absurdly high price is only slightly more irrational than a low one. In any case, if they are really worthless, they are quickly found out. The setback in tech stocks over the past 10 days bears witness to this. What is more worrying, as the Benjamin Graham quotations make clear, is the high value placed on sound companies, where there is a real history and a testable business concept. With Coca-Cola selling at 47 times current earnings, Disney on a rating of 36, and a clutch of other blue chips selling at multiples in the high 20s, investors are valuing a dollar of earnings in the distant future almost as highly as they value a dollar today.

At the same time, those same individual American investors are continuing to run up credit-card debt at interest rates which imply a high preference for consuming today over consuming in the future. As long as there are stocks around that show a three-year return of more than 2500 per cent, investors have no need to decide between these rates of preference. But at some point they may be forced to make a choice - and the long-term outlook implicit in the current level of stock prices may be the loser. I am grateful to William Fleckenstein at www.stocksite.com for pointing out the Benjamin Graham quotations. peter.martin@ft.com

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US BANKING EXPANSION PLANS INTACT DESPITE WITHDRAWAL OF \$24bn MELLON BID

BoNY still keen on further acquisitions

By Jane Thornton, Investment Correspondent

Bank of New York is keen to make further acquisitions in spite of the withdrawal last week of its \$24bn bid for Pittsburgh-based Mellon Bank.

Tom Perna, head of the group's investment company services, said that BoNY was still keen to expand through acquisition after pulling out of the largest unsolicited bid for a bank in US history.

The group is intent on expansion in Europe and could announce a deal in the UK in the coming months. It also continues to have designs on State Street, its Boston-based rival.

"We will certainly turn our attention back to [expanding] product lines through acquisition and we believe the State Street acquisition would be a good one," said Mr Perna.

BoNY abandoned its bid to increase its stake in State Street last year after opposition both from the target's management and from Massachusetts banking regulators.

It now holds a "significant stake" in the company of less than 5 per cent. BoNY, the oldest bank in the US and previously regarded as one of the most staid, is pursuing a strategy of growth in fee-generating businesses, such as securities processing, rather than traditional lending.

It has made 33 acquisitions of processing businesses since January 1995, including the purchases of businesses belonging to J.P. Morgan, NationsBank, BankAmerica, and Wells Fargo.

State Street, which has more than \$3,000bn in assets under custody, is one of the world's three largest global

custodians, along with BoNY and Chase Manhattan.

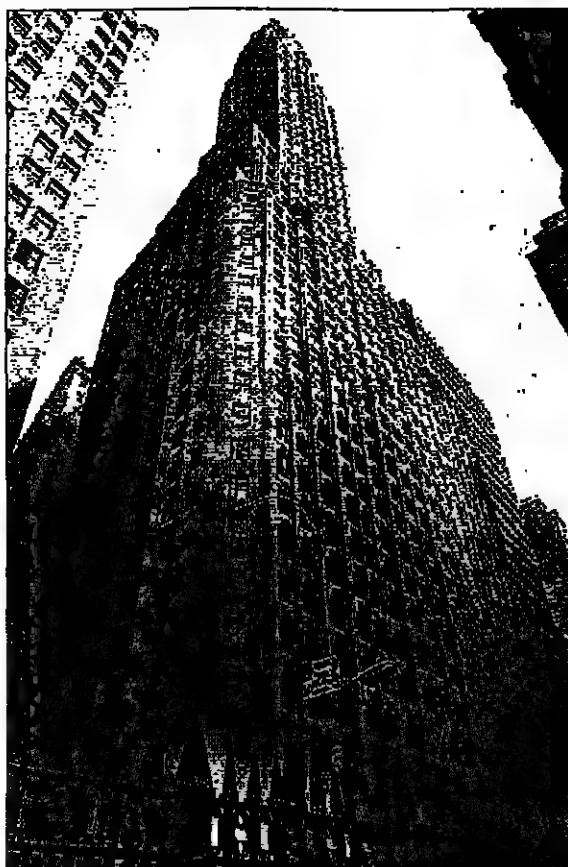
It has a higher rating among analysts than its New York rival and is understood to be keen to remain independent.

BoNY's desire to buy is set to be met with some scepticism by those disappointed by its inability to close a deal with either State Street or Mellon.

Mr Perna said the rationale for greater consolidation in the industry was compelling: "It's not just to do with economies of scale but the breadth of capabilities."

Pressure to adapt computer systems to cope with the year 2000 problem and the introduction of the single currency in Europe was also behind the trend, he said.

Custody and fund management were the main drivers of BoNY's bid for Mellon.



Number 1 Wall Street, Bank of New York's headquarters

Unilever's seed unit attracts Monsanto

By Maggie Urry

Monsanto, the US life sciences group and pioneer of genetic modification of crops, is a leading contender in the auction to buy Plant Breeding International, Unilever's seed business.

Unilever, the Anglo-Dutch consumer group, put the business up for sale last month. Although it has a turnover of only \$16m, it is expected to fetch hundreds of millions of pounds.

Charlotte Walliker, head of Monsanto's agriculture business in the UK and Ireland, said that Monsanto and other life sciences groups were "all interested" in buying PBI. She said Monsanto continued to need access to the best plant strains for its genetic modification work.

Dupont of the US and Novartis of Switzerland are also likely bidders.

PBI's expertise is in wheat, and it produces the market-leading winter wheat strain in Europe. Mrs Walliker said: "Anyone who wants to be in the genetic enhancement business needs access to good germ plasma." Recent deals, including some done by Monsanto, had put "extraordinary" multiples on target companies.

This month, Monsanto paid \$4bn (\$2.3bn) to take control of two companies, DeKalb Genetics and Delta & Pine. Last year, Monsanto paid more than \$1bn to buy Holden's Foundation Seeds, a multiple of 22 times sales.

Monsanto's strengths in the US are in soybeans, cotton and maize. Its first commercial crops have been bred to be tolerant to its Roundup herbicide, enabling better weed control with less herbicide usage and therefore higher yields.

Genetically modified crops have met consumer resistance in Europe, although commercial crops of maize are being grown this year in Spain and France. Trials of modified crops in the UK, including oilseed rape and sugar beet, are under way and could go into commercial cultivation next year.

Unilever acquired PBI from the UK government in 1987 for \$88m, and a sale for a much higher price could cause a political row. PBI, based in Cambridge, also owns extensive land in that area which could be valuable if planning permission was given for housing.

Company executive in HK resigns

By Louise Lucas, in Hong Kong

Three mainland-backed Hong Kong companies have confirmed that Fang Dacheng, their senior executive, was under investigation for alleged economic crimes in China. He has now resigned from those companies.

Reports of Mr Fang's arrest circulated through the market last week, prompting a sharp fall in the shares of Onfeng Holdings, the Hong Kong-listed division of the recently delisted China National Nonferrous Metals (CNNC).

The moves followed a series of trading scams that contributed to CNNC losses last year of more than US\$200m.

Onfeng said it had received confirmation that Mr Fang had been under investigation for his "alleged economic crimes" committed while he was acting as a managing director for the parent company.

Similar statements, including news of his resignation, were issued by other parts of the former CNNC group, Jianxi Copper and Silver Grant International Industries, which also announced the resignation of another executive director, Shang Yong.

None of the companies has suffered financial losses as a result of the case, the statements added.

Mr Fang's resignation comes at a time of a broader crackdown on corruption at mainland-controlled business groups.

It follows the arrest last month of Jin Debin, a former director of Ku Wah Bank, the Hong Kong financial arm of China's flagship investment agency Citic.

IBM bank system hits snags

By George Graham, Banking Editor

IBM, the largest supplier of IT services to the banking industry, has run into difficulties over the development of CoreBank, the system it has been marketing as a basic computer platform for retail banks.

CoreBank was originally developed by a consortium of Danish savings banks and developed by IBM as an international banking system. IBM has sold the

system to banks in the UK, France and Sweden, but has encountered problems in adapting the software.

In the UK, Halifax chose CoreBank 18 months ago as its principal retail banking platform, in the hope that the system, which can handle dates after the year 2000, would solve its millennium bomb problems.

But senior Halifax executives said the system had proved unable to handle features of the UK banking market such as mortgage

interest relief at source, and was a long way from being ready to implement.

"Basically, IBM overpromised," a senior Halifax executive said.

The bank - then a building society in the process of preparing itself for flotation - was estimated at the time to be paying about \$20m for CoreBank, but computer industry experts said it would by now have spent considerably more on attempts to implement the system.

In a statement, Halifax said it still had a close strategic relationship with IBM and was continuously reviewing the best ways of implementing CoreBank.

IBM officials did not return telephone calls.

Svenska Handelsbanken, of Sweden, also signed up for CoreBank. Several other UK banks have also spent millions of pounds trying to implement CoreBank in their own systems although they have not been publicly announced as clients.

Euro to shake up chemicals

By Jimmy Lindsay

The launch of the Euro will provoke a new round of acquisitions of UK chemical companies, as the sector moves into long-term decline, according to research just published by Dresdner Kleinwort Benson.

In a survey of chief executives and finance directors from the UK's 30 leading chemical companies, DKB points to falling European chemical prices and profits as a result of the Euro launch, with UK companies

hard hit because of the simultaneous strength of sterling.

The brokers say the slowdown will trigger further consolidation, as European and US chemical companies seek to preserve profit margins by raising market share and maximising economies of scale.

One of the main pressures on the European industry will be the ending of differential pricing. Of the UK chemicals companies surveyed by DKB, three-quarters revealed wide variations

across European countries. For a quarter of the companies, the price variation from country to country was greater than 10 per cent.

The move to a single currency seems certain to reduce these prices to the lowest common denominator. Indeed, this process is already under way, an example being DuPont's recent decision to cut nylon prices in the UK, where they were 12 per cent higher than elsewhere in Europe.

However, "from day one of the Euro, competition is

going to become a lot fiercer", said Allister McIsaac, finance director of Yule Cato, UK chemicals company.

The brokers calculate that on a purchasing power parity basis within the chemicals industry, an appropriate Euro entry level for the UK would be DM2.60. However, "a similar comparison for the services sector indicates a rate of DM3.33, suggesting a likely entry level for sterling in the region of DM2.85." On Friday night, the pound was closed at DM2.87.

PIs hired to check out eastern promises

By Jonathan Gutter

An increasing number of UK companies buying businesses or setting up joint ventures in former Soviet Union countries are recruiting private detectives to investigate their eastern European collaborators.

Edwin Harland, director of European operations at Network International, the fraud risk management company owned by the Hambro banking group, said business was growing because "a

huge number of western companies and banks have had their fingers burnt over there".

Mr Harland said the main problem facing his clients was that information provided by Russian businesses selling subsidiaries sometimes greatly overstated the value of the assets on offer.

He added that some Russian entrepreneurs had lied about their contacts and influence to lure western companies into lucrative joint venture agreements.

Kroll Associates, the fraud management and security company, said it was also taking on an increasing number of briefs from UK companies doing business in the former Soviet Union.

Tommy Heisly, chairman of Kroll Europe, said: "The frontier is moving outwards... more and more clients are interested in Georgia, Kazakhstan and Uzbekistan, as well as Russia."

However, a Russian diplomat, who asked not to be

named, said: "This is a sensitive issue, but there is no special problem with fraud in Russia... we have also dealt with a lot of cases of Russian companies being defrauded by foreigners with part of the transaction passing through the UK."

Some investigations are handled by the UK and US staff of the fraud management operations, which include specialised departments within large accountancies. Local experts are also employed.

Kroll, for example, has three full-time staff in its Moscow office and is hiring a fourth.

The company also sub-contracts work to self-employed investigators, including former members of the Russian police force.

Mr Harland said that in one case, a Russian entrepreneur had presented a client interested in joining him in a joint venture with a failed company, purportedly from the western business press, to establish his credentials.

DERIVATIVES DISPUTE GROWS OVER COMPUTER-BASED TRADING PROPOSAL

Outcry over Cantor/NYCE Treasury plan

By Nikhil Tait in Chicago

When plans for a new computer-based trading system for US government bond futures leaked out last year, many saw it as a challenge for the big established US futures markets, which still operate on the "open outcry" system - where traders physically signal to each other across a pit.

The new trading platform, by contrast, would be a joint venture between the New York Cotton Exchange, one of the smaller Manhattan-based exchanges, and Cantor Fitzgerald, a leading broker for US government bonds.

It would offer computer-based trading of US Treasury bonds, 10-year notes, five-year notes, and two-year notes futures - cutting directly into the Chicago Board of Trade's huge US bond futures business.

The hours promised by the new exchange - 7.30am to 5.30pm - would be longer than the conventional pit trading hours. And, although fees have been not disclosed, the new exchange would almost certainly attempt to reduce trading costs below those at CBOT, the world's biggest futures market.

Already, some CBOT members have admitted that if the new trading system - to be called the Cantor Fitzgerald Futures Exchange - lives up to its promises, they could be obliged to move their business there.

But when details of the plan were filed this year with the Commodity Futures Trading Commission, the US industry regulator, the CBOT cried foul.

"It would be difficult to construct a scenario more fraught with conflict and the potential for customer abuse," it protested. "Simply put, the CFFE structure will allow Cantor to control the exchange and trading in the exchange for its own benefit and without proper accountability."

Essentially, the initial Cantor/NYCE plan envisaged a system where authorised traders would place orders by phoning CFFE "terminal operators", located on Cantor premises.

These operators, employed jointly by Cantor and the CFFE, would then enter the orders into the electronic trade-matching system, which would be modelled on Cantor's computer-based system for the cash market in Treasury securities.

CBOT's objections focused on the role of these terminal operators. The exchange pointed out that there was no requirement for them to be registered with the CFTC, and thus subject to normal surveillance.

Equally, while taking orders from outside parties, the terminal operators might also be executing business for Cantor.

"This lack of independence... increases the potential for abuse, since the terminal operator could use information from futures trades to generate business in the cash market," it said.

That CBOT would fight against the Cantor/NYCE scheme was hardly a surprise. But a handful of other exchanges, including the American Stock Exchange and the Minneapolis Grain Exchange, also weighed in on CBOT's side.

Meanwhile, the CFTC seemed to have its own reservations. This month, it sent back a 26-page letter to NYCE/Cantor with 112 questions.

NYCE/Cantor has wasted little time in responding. Late last week, the two organisations sent back a revised plan. In effect to deal with the contentious role of

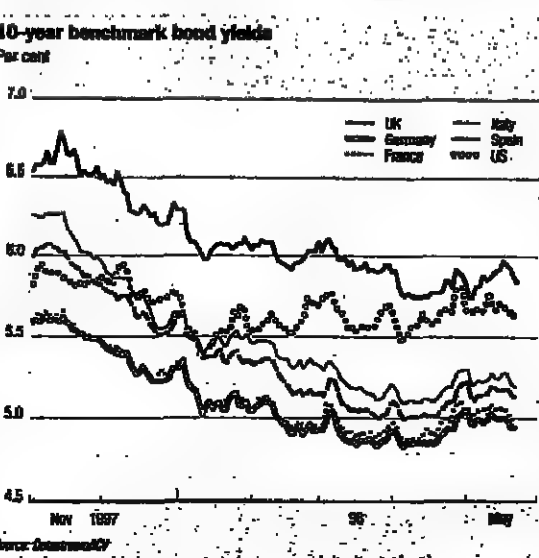
the terminal operators, they are now proposing to register these individuals - perhaps 250 people - as conventional futures industry "floor brokers" and making them subject to NYCE's regulatory supervision.

"We've responded to all the CFTC's questions with further clarification," says Joseph O'Neill, NYCE's president. Whether this begins to satisfy the regulators - or generates a fresh blast from CBOT - remains to be seen.

Mr O'Neill is still hopeful of a June approval, although CFTC rules allow the regulators 12 months to consider the issue - and the clock stopped between the sending of the CFTC's letter to NYCE/Cantor and last week's revised filing.

Meanwhile, Cantor/NYCE are not the only ones on the attack. While they are threatening to poach CBOT's territory, the Chicago exchange has said it would launch its own electronic system for trading cash government securities in July.

This would be done through Chicago Board Brokerage, a joint venture with Prebon Yamani, one of Cantor's competitors, and represents a direct incursion into Cantor's turf.



Rubbing salt in the wound, CBB is proposing to license the required trading software from Market Data Corporation, a Cantor affiliate spun off from its computer programming department and now controlled by Iris Cantor, widow of one of Cantor Fitzgerald's founders. Cantor is not sitting still: it is incensed enough to sue Mrs Cantor, claiming that she and Rodney Fisher, Market Data's chief executive, have breached their obligations under the partnership agreement at Cantor Fitzgerald, which includes various non-compete clauses. The charge has been denied by Mrs Cantor's lawyers.

Nevertheless, both sides will make their way into a Delaware court tomorrow, with Cantor Fitzgerald seeking a preliminary injunction to stop MDC making software available to CBB - the latest round in what promises to be a long, and complicated battle of wills.

COMMENT

Northern Ireland

Does the Yes vote for the peace agreement now mean Ulster is open for business? The truth is, it was never closed. Industrial output has grown a robust 25 per cent this decade, and some 100,000 extra jobs have been created over the past 10 years. Foreign direct investment has climbed steadily, helped by the attractions of a well-educated, inexpensive workforce. Where peace will undoubtedly pay dividends is in tourism. Some economists believe the industry could double over the next five years. The last ceasefire showed how quickly tourism revives, when the threat of violence fades.

Peace has a financial downside too. As the need for additional security and policing falls, so too will the public expenditure that supports it. The hope is that as the Northern Irish economy is weaned off grants, private investment will fill the gaps.

LCR

What a difference four months makes. In January, the LCR consortium, chosen to build the high-speed Channel tunnel rail link, did the corporate equivalent of handing in the keys. Its project was wildly adrift on revenue forecasts, and it wanted an extra \$1.2bn of taxpayer's money. Not all of this was pure subsidy, but the payback on the loan element was so far away as to make even a Eurotunnel banker blanch. Four months later, details of LCR mark two are emerging. It appears the consortium now reckons it can do with less cash, although numbers are still under wraps.

Tough questions need to be asked of the project's resurrection. Has there been a dramatic improvement in the finances of Eurostar, the train service supposed to bankroll the project? Unlikely. Its actual performance was never that bad to start with. It was the victim of unrealistic forecasts.

Perhaps bringing Railtrack into the project explains the improved outlook. Railtrack may well be able to build the project more cheaply than LCR. Running the country's rail network should yield economies of scale. But the project's miraculous recovery would inspire more confidence if Railtrack had to bid for a slice of the action in a competitive auction. Unfortunately, this looks unlikely.

What the government should do, however, is make clear where the liabilities fall if the project collapses again. Taxpayers are entitled to know how much of the tab they risk ending up with.

NEWS DIGEST

JAPAN

Slow domestic demand hits machinery groups

Slow domestic demand and the Asian economic crisis hit earnings at Japan's largest heavy machinery makers in the year ending in March. Mitsubishi Heavy Industries, Japan's largest machinery manufacturer, saw net profits halve to ¥60bn (\$442m), on sales down 1.5 per cent at ¥3,095bn. Pre-tax profits before exceptional items fell 36.1 per cent to ¥133.6bn, because of high costs for overseas procurement of parts.

Consolidated net earnings at Kawasaki Heavy Industries fell 17.7 per cent to ¥18,500m on sales up 5.8 per cent at ¥1,287bn. Non-consolidated after-tax earnings fell from ¥22bn to ¥11.8bn. The company blamed the results on losses at its US subsidiary and poor sales in its shipbuilding and aircraft divisions. Alessandra Harney, Tokyo

RETAIL

Isetan disappoints

Isetan shares plunged 6.6 per cent on Friday after the Japanese department store chain released results that were below expectations. The figures reflected the prolonged consumer slump in Japan, and Isetan remained cautious about the outlook with a virtually flat forecast for the current year.

Parent-company sales for the year to March 31 fell 6.2 per cent to ¥432bn (\$3.2bn), worse than the 3.4 per cent drop Isetan predicted late last year.

Pre-tax profits were up slightly at ¥12,740m, against ¥12,700m, but net profits collapsed 41 per cent to ¥2,530m. Isetan had forecast a 30 per cent drop in net earnings to ¥2bn, largely because of write-offs relating to its investment in Barney's, the failed US retailer. The dividend was unchanged at ¥10. Bethan Hutton, Tokyo

TELECOMMUNICATIONS

TIM rises 24% in quarter

Telecom Italia Mobile (TIM), the mobile phone operator, recorded a 24 per cent increase in first-quarter earnings to £2,486bn (\$1.43bn). Net profits were £505bn, against £311bn.

Highlighting the growth of mobile telephony in Italy, TIM said its client base had risen by 55 per cent in the first quarter, giving it 10.1m clients out of the 13.3m in the Italian market. TIM's results come weeks before the Italian government is due to announce the winner of Italy's third mobile licence. James Bittz, Rome

PROPERTY

Reichmann group acquisition

International Properties, Paul Reichmann's development group, has acquired a portfolio of 24 retail and office buildings for \$350m from Intel Investment and Management, a private US property investment and development company. The acquisition is the Reichmann family's largest US purchase since its Olympia & York Developments collapsed under billions of dollars of debt in the early 1990s. The portfolio is comprised of 18 office buildings and six retail centres in the US mid-west and north-east.

Intel, which acquired the properties during the market downturn of the early 1990s, said it sold the portfolio to realise a substantial return given the current health of the investment market. Scott Morrison, Toronto

BANK HAPOLIM

GMTN programme expanded

Bank Hapoalim, Israel's biggest banking group, yesterday said it expanded the framework of a global medium-term note programme launched last October from \$600m to \$1.5bn.

The expansion agreement, signed in London last Friday, is the latest in a flurry of Israeli banking activity aimed at penetrating international capital markets. The GMTN was the first by an Israeli bank, and is being carried out through its Dutch Antilles-registered subsidiary.

Merrill Lynch, the investment bank, is lead arranger for the programme, which has been rated A3 by Moody's and A- by Standard and Poor's, the US ratings agencies. Avi Machlis, Jerusalem

CORRECTION

Taisho

Taisho, the Japanese drugs group, posted net profits last financial year of ¥33bn (\$243m). The figure was mis-stated in Friday's edition.

SBC knew of derivatives losses at UBS

By Clay Harris and William Hall in London

Swiss Bank Corporation knew of the derivatives problems at Union Bank of Switzerland when the banks commenced their courtship, according to Marcel Ospel, SBC chief executive.

Mr Ospel, who will be chief executive of the new UBS, continental Europe's largest bank, said: "When our flirt got serious, we knew there was an issue which might lead to action."

UBS's global equities derivatives (GED) management group was responsible for losses of up to \$576.65m (\$444m) in 1997, according to senior sources familiar with the figures.

Mr Ospel, however, played down any suggestion that the size of UBS's derivatives losses, or what they revealed about its management or risk controls, contributed to the dominant position executives from SBC – the smaller of the two banks – have taken in the post-merger institution.

UBS's derivatives losses were a "fraction of their annual revenue power in this area", Mr Ospel said in an interview.

"It's an even smaller fraction of what other areas of their banking businesses have been able to produce. UBS was not the only firm that lost money in this area in this period last year. We at SBC also had a difficult

month in October and so did others," he added.

UBS avoided admitting the full size of the derivatives losses by reporting the trading for which GED was responsible in different ways and in separate parts of a statement made before shareholders met in February to approve the merger.

In November, shortly before the SBC merger was announced, Rami Goldstein, who ran the London-based GED operation for UBS, was dismissed with four traders.

Hans-Peter Bauer, global head of fixed income, currency and derivatives, was dismissed just before Christmas.

Mr Ospel said: "In this business, where decisions of significant size and impact are taken within minutes, obviously you have to delegate significant authority. This requires a high level of confidence in the professional responsible. Obviously [UBS] was unhappy with how this thing was handled and took action which led to these redundancies."

The SBC-UBS merger awaits final approval by US authorities before it can officially take effect. Although the banks were happy with what had been achieved so far and were ahead of plan in some areas, Mr Ospel said: "We've been merging for six months without having really merged."

See inside track

El Al overcomes tourism crisis

By Avi Machlis in Jerusalem

El Al, Israel's state-owned airline, cut losses from \$80m to \$4m last year in spite of fewer incoming tourists, according to 1997 results to be approved by the company's board today.

The fall in losses was achieved on a slight decline in revenues, according to the airline.

The improvement is expected to help government efforts to begin the airline's long-awaited privatisation. "The company looks much more attractive as far as privatisation is concerned," the carrier said.

El Al said it offset the tourism crisis, caused by the deadlocked peace process and suicide bombings by Palestinian extremists, by marketing efforts to increase the number of Israeli travellers.

The airline's improvement was also fuelled by the devaluation of the shekel against the dollar and falling fuel prices, as well as vigorous cost-cutting.

El Al yesterday said it cut

first-quarter losses from \$81m to \$17m. The first quarter is a slow season in the airline industry.

A ministerial privatisation committee will meet on June 1 to discuss details of the first stage of the sell-off – a plan to float 49 per cent of the airline on the Tel Aviv Stock Exchange.

El Al's privatisation has been delayed for years by disputes over whether a ban on flights on Saturdays, the Jewish Sabbath, would be lifted under private ownership. Grounding the fleet on Saturdays costs the company an estimated \$40m-\$60m in annual profits.

The issue will be side-stepped in the initial phase of privatisation, if the 49 per cent float is approved, as the government will maintain control of the airline.

The committee will discuss other disputed issues, such as government subsidies of El Al's heavy security costs.

However, government officials say an offering is unlikely to take place before next year.

Ence gets focused for pan-Iberian pulp merger

The Spanish group is trying to raise its profile ahead of its privatisation and a proposed link with Portucel, writes David White



merger being consid-

ered between the two main pulp makers of Spain and Portugal could set a significant precedent by creating the Iberian peninsula's first genuinely cross-border industrial multinational. But it is still far from clear on what terms the match can be made.

In many respects, it would seem to be a marriage of equals. The two companies, Ence and Portucel Industrial, operate in the same segment of the same industry, in neighbouring countries that will soon have the same currency.

They have been subject to the ups and downs of the same business cycle and have equivalent production capacities. They share the idea that combining forces to create one of the biggest European pulp groups makes commercial sense. They are both quoted companies, majority state-controlled and on their respective governments' privatisation lists.

However, the problem facing Juan Villena, Ence chairman, is that the two countries' stock markets have treated the groups with

unequal favour – with the result that the prospective Portuguese partner has come to be worth about 30 per cent more than the Spanish company.

He is now trying to raise Ence's profile in an effort to boost a stock he reckons is "seriously undervalued". He says his company has failed to make itself understood.

Its relatively low share price is seen as complicating plans both for the completion of its privatisation and for the proposed pan-Iberian link-up.

In spite of a return to profit last year and prospect of strong growth in its forestry business, Spanish investors have taken a wary view of this notoriously cyclical sector.

Ence, originally three state companies set up under the Franco regime in the 1950s and later merged into one, was partially privatised in two stages – 1989 and 1995. After the last offering, when they were priced at Ptas3,100, the shares climbed to a peak of Ptas3,550, and then tumbled to less than half that level with the collapse of the pulp market, hitting a low of Ptas1,510 in February 1996.

According to Ence, there were too many good alternatives for short-term investment on the Spanish market. In contrast to competitors in

other countries, where the setback was "limited and transitory", its shares failed to bounce back. At the end of last month they were at exactly the Ptas3,100 level of the last share offering.

This implies a market value of Ptas8.5bn (\$451m), compared with Portucel's market capitalisation of Ptas10.4bn (\$533m).

State-sector holding companies for both groups – currently with stakes of just over 51 per cent in Ence and almost 56 per cent in Portucel – have given themselves until September to study the possibility of a merger.

Both groups specialise in eucalyptus pulp, each with a capacity of about 600,000 tonnes a year. Together they would form one of half a dozen world pulp companies producing more than 1m tonnes annually, in a league with the main Brazilian, Swedish and US groups.

Pedro Ferreras, chairman of Sepi, the Spanish government industrial agency, says Ence's privatisation could go ahead this year, but no date has been set.

Mr Villena says Ence has become highly competitive in costs, has remodelled its plants, enjoys among the best margins in the sector, and has concentrated on ensuring a healthy balance sheet. "There will be low



Ence has the biggest base of eucalyptus forests of any European company, expanding by 7,000 hectares a year

profits generating a return on net assets of almost 41 per cent.

The following year the company was Ptas2.93bn in the red, with turnover down to Ptas2.51bn. Last year it showed net profits of Ptas2.06bn, with turnover recovering by 22 per cent to Ptas4.93bn.

Portucel followed a similar

pattern, with 1997 net profit somewhat higher than Ence's at Ptas1.35bn and sales up 18 per cent to Ptas5.74bn, virtually the same as the Spanish group.

Mr Villena describes Ence as a "very focused" group, divided roughly equally between its forestry and pulp divisions, with no plans for moving into paper production.

He says it has the biggest base of eucalyptus forests of any European company, expanding by 7,000 hectares a year.

Charges and chip price collapse hit Fujitsu

By Paul Armstrong in Tokyo

A collapse in semiconductor prices, losses caused by the Asian currency crisis and costs associated with the acquisition of Amdahl, of the US, dented net earnings at Fujitsu, Japan's biggest computer maker.

Consolidated net profits in the year ending in March plunged 88 per cent from ¥46bn to just ¥5.5bn (\$41.1m), but the company predicted a rebound to

¥76bn in the current year. Fujitsu did not give details of the restructuring nor information about the amortisation of goodwill at Amdahl, the US mainframe, software and computer services business in which it increased its stake from 42 per cent to 100 per cent last October.

Last month, brokers ING Barings estimated that net profits would be set back ¥20bn for amortisation of goodwill and ¥16bn for restructuring charges

related to the US subsidiary. In the group's profit and loss account, "other expenses" jumped from ¥18bn to ¥26bn.

Pre-tax profits fell 37 per cent from ¥143bn to ¥104bn but the tax charge rose 13.5 per cent from ¥96bn to ¥106bn. Fujitsu only made a net profit because of an income of ¥18.8bn from affiliated companies in which it holds stakes.

Although capital expenditure in semiconductor division fell from ¥192bn to ¥176bn, over-

all spending was virtually static at ¥436.7bn.

Turnover increased 11 per cent from ¥4,503bn to ¥4,985bn, although the company did not say how much of this was due to the consolidation of Amdahl's sales in the second half. Operating margins slipped from 4.4 per cent to 4.2 per cent.

Fujitsu forecast sales would increase 13 per cent to ¥5,800bn this year.

Sales in the computer and information services division rose 12 per cent to ¥3,330bn.

The group benefited from robust demand for personal computers and disk drives in the US and Europe, it said. Fujitsu owns 90 per cent of ICL of the UK.

Turnover in the semiconductor and electronic component division rose 18.7 per cent to ¥597bn, but the company admitted depressed D-Ram prices had had an extremely negative effect on margins.

Turnover at the communications systems division fell in Japan, because of slow-

down in investment by domestic telecommunications companies, particularly NTT.

The company is the country's second-largest producer of telecom equipment after NEC.

However, overall sales rose 1.9 per cent to ¥871bn, as slow growth in the home market was offset by higher overseas sales. Telecoms is traditionally the company's most profitable division.

The dividend was maintained at ¥10.

Swedish car groups to reveal future routes

By Tim Burt in Stockholm

The Saab dealer handed over the keys and smiled brilliantly. "I think you will find this car a pleasant surprise."

On the highway north of Stockholm, Saab's new flagship model, the 95, purred along nicely, effortlessly overtaking Volvos loaded down with children and holiday luggage.

Although Saab and Volvo dislike being seen as direct competitors, the two Swedish vehicle makers will this week set out strategies designed to capture a larger share of the market for executive cars.

On Thursday, Volvo is launching its new large car, the S80, following a four-year development costing an estimated SKr30bn (\$3.9bn). The

car, the long-awaited replacement for the dated 960 series, has been designed as part of a strategy to focus on just two core platforms.

Today, Saab is expected to announce an investment of more than SKr1bn to expand its three plants in Sweden and proceed with development of a new estate car, based on the 96.

Both companies hope their strategies and new products will secure their market share and capture enough new sales to enable them to break out of the category of small-to-medium volume producers. There, however, most stimulates end.

Volvo, unlike Saab, is profitable and does not rely wholly on car production. The company, which also has a strong presence in

trucks and construction equipment, made pre-tax profits of SKr12.2bn on sales of SKr194bn last year. It has a cash pile of SKr1.8bn and boasts output of about 360,000 cars a year.

Saab reported losses last year of SKr1.83bn on sales of SKr22.4bn. It sold slightly more than 100,000 cars in 1997 and will not break even until output rises beyond 130,000 units a year.

The company, managed and 50 per cent-owned by General Motors of the US, has accumulated losses of SKr1.2bn since 1989 – when GM acquired its stake from investor, the main investment vehicle of the Wallenberg business empire.

However, given the rapid consolidation in the automotive industry, both Saab and

Volvo face common challenges to their future as independent manufacturers.

Volvo has established an alliance with Mitsubishi of Japan. The two companies jointly produce mid-range cars in the Netherlands, but Mitsubishi has been described as vulnerable following the announcement of the Chrysler/Daimler-Benz merger and may not be the ideal partner for Volvo to extend its global reach.

Leif Johansson, who took over as chief executive of Volvo last year, says he feels neither threatened nor surprised by the Chrysler/Daimler deal. "We have drawn up a strategy that I am confident is the right route for Volvo," he says.

Volvo's car division will rely on just two platforms,

the S80 large car and S40/V40 medium-size model, and offer variants according to customer tastes.

If the S80 is well received and Volvo proceeds with plans to sell the S40/V40 in the US, rising demand could help it reach its critical production target of 500,000 by 2000. A credible top-of-the-range model would also help Volvo narrow the margin gap between itself and rivals such as BMW and Mercedes.

At the same time, Mr Johansson hints that the company will use its cash pile to develop divisions such as construction equipment and trucks to reduce its dependence on cars. Saab cannot fall back on other businesses, but Robert Hendry, the Saab chief executive installed by GM, is

confident it will break even this year and has even greater ambitions for the Swedish company.

Although using GM components on its 900 model proved ill-judged, Saab is now working on three new platforms in co-operation with its US joint owner.

Assuming that GM acquires outright control of Saab from investor next year – when put and call options between the two companies mature – the future of the Swedish manufacturer could, ironically, look more secure than Volvo in a rapidly consolidating industry.

"Our main objective is to make money," says Mr Hendry. "But our minds are turning to the products after 2000. That will be a watershed."

NTT incurs deficit on handyphone operations

By Michio Nakamoto in Tokyo

NTT, Japan's largest telecommunications operator, is taking a ¥64.6bn (\$476m) extraordinary loss and consolidating its personal handyphone system with its cellular phone company, highlighting the difficulties the service has faced in Japan.

The personal handyphone system (PHS), a lower cost version of the cellular phone service, was launched less than two years ago. NTT and the Ministry of Posts and Telecommunications had high expectations that it would spread to other parts of the world.

However, NTT's announcement of the losses incurred by its PHS operations, and

its decision to merge the business with Docomo, its cellular phone company, was an admission that its strategy had failed.

The advantages that PHS had over cellular phones when it was launched – the fact that it was about half the weight of cellular phones, had a longer battery life and lower rates – are disappearing," said Norio Wada, executive vice-president. In terms of call rates, cellular phones had become cheaper than PHS in areas within 100km, he said.

NTT on Friday unveiled stronger group profits for the year to March. Although the parent company suffered from rate cuts in the telephone business, group profits were boosted by new ser-

vices, such as its integrated services digital network, which offers high-speed digital communications.

Group sales rose 7 per cent to ¥9,450bn, while recurring profits were up 35 per cent to ¥600.5bn. Net profits increased 94 per cent to ¥289.8bn.

The PHS companies will be liquidated this year and NTT expects new services to be developed as a result of the transfer to Docomo. Data transmission services would be further developed and PHS was likely to be positioned more as a cordless phone, rather than a substitute for cellular phones, the company said.

NTT admitted that the transfer to Docomo would lower Docomo's profitability.

EMERGING MARKETS

Testing times for investors in Russia

By Chryslis Freedland in Moscow

Last year, it seemed the Russian stock market could do no wrong. Convinced that Russia had thrown off its communist shackles and would swiftly become one of the great growth stories of the coming millennium, investors piled in.

So great was their confidence that, by the summer of last year, when Russia had already become one of the best performing markets in the world, investors did not really seem to care where the companies they were buying were located and what exactly they were called, as long as they belonged to a hot sector such as telecommunications or electricity.

As one US fund manager, on a visit to Moscow, put it: "Honey, I don't pronounce 'em, I just buy 'em."

Less than nine months since the market reached its peak, however, all has changed.

The Russian Trading System (RTS) index of Russia's most liquid stocks fell 2.1 per cent on Friday, ending a devastating week in which share prices dropped by nearly 13 per cent. Since October 6 last year, the market has shed more than 60 per cent of its value.

The same investors who last year were buying anything with a few hard Russian consonants in its name,

are now avoiding the Cyrillic alphabet like the plague.

"The sentiment has really soured, it's really terrible at the moment," says Martin Diggle, a director at Moscow-based brokerage Brunswick Warburg. "We're left now with the bare bones of Russia-dedicated investors."

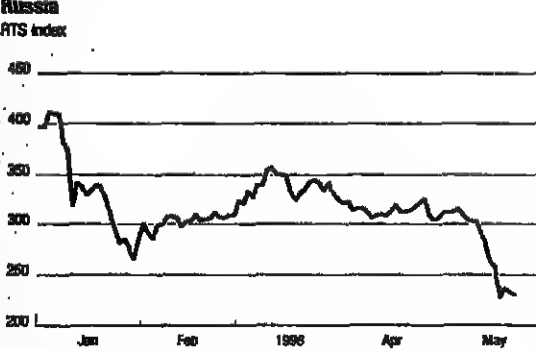
However, even among these hardy Russophiles, who have weathered a parliamentary coup, a civil war in Chechnya and the threat of a communist takeover of the Kremlin in the 1996 presidential race, the mood is gloomy.

"These tend to be people who've seen pretty extreme events," Mr Diggle says. "That said, because this market has been so bad, for so long, I think there's an element of depression and resignation settling in."

When the Russian markets first began their slide in the autumn, triggered by the Asian economic crisis, many Russian investors and government officials believed that the fall would be temporary.

Some of them, including Anatoly Chubais, the visionary father of Russia's privatisation drive, went so far as to predict that the collapse in Asia would bring swift benefits to Moscow, by leading to a reallocation of emerging market portfolios to Russia.

That has not happened. And while analysts agree



Source: International Data Corp

that Asia has been the trigger for Russia's woes, the bigger problem is that it has drawn attention to, and exacerbated, deep-rooted domestic ills.

"Indonesia is the catalyst, but the negative sentiment now is about Russia-specific problems," argues Roland Nash, an analyst at MFK-Renaissance, a Moscow-based investment bank.

These domestic problems include falling commodity prices, which have sapped the strength of Russia's oil-fed economy, and stubbornly weak tax collection.

The shift in investor sentiment has made things worse, causing such anxiety that the central bank was forced to raise interest rates last week to 50 per cent to defend the rouble.

That rate rise itself threatens to intensify Russia's

structural problems, as high interest rates on government bonds put an additional strain on the country's already shaky public finances.

Worse yet, last week Russia's squeezed treasury came under new pressure on the demand side, Russian workers, who have endured huge wage arrears for years without mounting any effective political protest, this month may have finally hit on a way of making themselves heard in the capital. Instead of merely striking, Russian miners blocked the country's railway arteries for more than a week, forcing the government to make concessions.

However, die-hard Russia fans say they are undaunted. For one thing, they argue, fears about the rouble betray a fundamental misunder-

standing of Russia.

After flirting with hyperinflation in the early 1990s, the Kremlin, they believe, is determined to back the rouble. It has greater leeway to do so because the immaturity of Russia's capitalist infrastructure and of its democratic institutions mean high interest rates and government austerity cause less popular pain and organised outcry than in more mature markets.

Second, Russia optimists say, share prices have fallen so low that Russia has again become too cheap not to buy.

"You could argue that the corrections we've seen in the past nine months are extreme," Mr Diggle says. "If you look at the valuations now, Russia is a good buy."

Perhaps, but other Russian analysts think domestic shares will still be a good buy in 2000, and that there is little point in investing in equities before then.

Real, sustained economic growth will require deep, slow and initially painful structural reforms. Even if the government begins to implement them now, 1998 is likely to be another year of stagnation.

And next year, Russia will be thrown into the political cycle of parliamentary elections in 1999 and the presidential race in 2000. Campaign trail populism is unlikely to lift Russia's lagging stock market.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Fortis (Belg/Nlands)	Générale de Banque (Belg)	Banking	\$11.2bn	Restructuring
Seagram (Canada)	PolyGram (Nlands)	Music	\$10.6bn	Record deal
Texas (US)	Energy Group (UK)	Power	\$7.3bn	Unconditional
Suez Lyonnaise (France)	SOB (Banking)	Banking	\$5.2bn	Mopping up
Pearson (UK)	Simon & Schuster (US)	Publishing	\$4.5bn	Hicks Muse helps
Ahold (Nlands)	Giant Food (US)	Retailing	\$2.7bn	Sainsbury sells
Artemis (France)	Christie's Int'l (UK)	Auctioneering	\$845m	Full bid
Commercial Union (UK)	Berkische Leber (Germany)	Insurance	\$340m	Agreed bid
RMC (UK)	Wulfsberg (Germany)	Cement	\$292m	Cash + debt
Nikko (Japan)	Roachef (UK)	Catering	\$287m	Principal purchase

CURRENCIES & MONEY

By Martin Dickson

German consumer price figures for May are due during the week, with analysts expecting the annual rate of inflation to drop to around 1.2 per cent from 1.4 per cent previously.

The Bundesbank council meets on Thursday, and while most analysts do not expect it to raise rates immediately, there may be some market nervousness ahead of the event.

A referendum in Denmark the same day on the European Union's Amsterdam treaty could also unsettle the markets.

Opinion polls indicate that nearly 50 per cent of the

country supports the treaty, which is designed to boost co-operation on immigration policies and prepare the way for EU expansion into Eastern Europe. As many as 30 to 35 per cent are opposed and the remainder are undecided.

Last week closed quietly, with mainland Europe recovering from Thursday's Ascension day public holiday and the UK preparing for its long holiday weekend.

The FTSE Eurotop 300 index ended on Friday night at 1,231.78, up 5.08 points on the day, while the Eurotop 100 finished at 2,821.73, up 10.07. The Euloc 100 index.

which follows companies domiciled in founder members of European monetary union, rose 2.37 to 1,034.19.

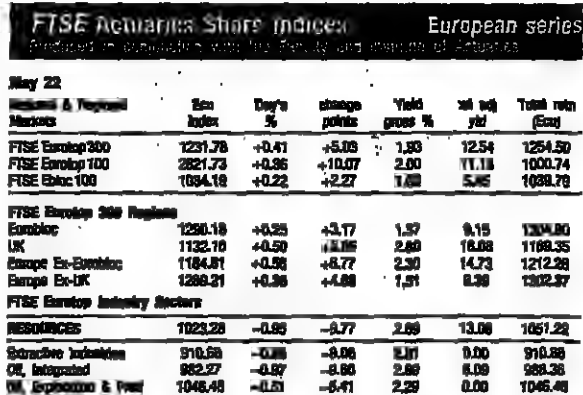
Strongly performing sectors included support services, up 8 per cent, and distribution, up 2.5 per cent.

Household goods was up 2.41 per cent, with L'Oréal up Ecu 24.1 at Ecu 455.96, while SMH Registered rose Ecu 2.5 to Ecu 165.07.

Food producers rose 1.75 per cent, with Nestlé up Ecu 87 at Ecu 1914.76, and Danona up Ecu 2.2 at Ecu 241.28, while Sodazho fell Ecu 3.5 to Ecu 178.19.

Sectors which fell included paper and leisure and hotels.

Japan	ATS	14.68587
Austria	BSF	41.12202
Belgium	BSF	36.24356
Czech Republic	CDK	7.818764
Denmark	DMK	6.026715
Finland	FIM	6.703857
France	FRF	1.98284
Germany	DMK	343.117556
Hungary	HUF	238.49159
Italy	ITP	0.797434
Israel	ISL	119.23043
Luxembourg	LUF	47.52022
Netherlands	NLG	2.252898
Norway	NOK	6.427025
Poland	PLN	3.857496
Portugal	PUL	204.68678
Romania	ROL	9055.350006
Russia	RUB	6.992020
Slovakia	SKS	36.82277
Slovenia	SIP	169.87414
Sweden	SEK	6.703848
Switzerland	CHF	1.863488
United Kingdom	GBP	0.688224
EU	EUU	1.016298
Americas		
Brazil	BRL	1.308670
Canada	CDL	1.648728
USA	USD	1.000000



Chemicals	1989.28	-0.58	+5.88	2.47	0.07	1989.28
Chemicals	1924.92	-0.28	-2.14	2.17	12.08	1937.82
Diversified Industrials	1927.54	-0.11	-1.18	1.08	4.34	1931.84
Electronic & Electric Equip	1954.92	-0.14	+12.08	1.26	0.00	1964.92
Engineering	1943.28	-0.57	+6.26	2.20	1.12	1944.94
Food, Drug & Retailing	1922.08	-0.71	-7.34	2.80	0.00	1922.08
CONSUMER GOODS	1154.92	+1.06	+11.54	1.50	0.26	1177.40
Automobiles	9224.43	0.00	0.00	0.00	0.00	9224.43

	1974-75	1975-76	1976-77	1977-78	1978-79
Alcoholic Beverages	366.53	-1.53	11.89	2.30	1.96
Food Products	1928.05	1.79	17.70	1.57	2.52
Household Goods & Texts	1957.69	-2.41	-26.55	1.16	0.71
Housewares	538.20	-0.40	-3.86	2.37	0.00
Personal Services	852.08	-4.49	-4.75	1.36	1.03
Tobacco	971.36	-0.83	-8.95	4.53	0.00
Services	1175.86	-4.36	-4.77	1.80	0.97
					1195.03

Distribution	1027.81	+60.40	+25.11	0.86	2.70	1030.28
Liquors & Spirits	990.49	-0.62	-1.71	2.42	0.60	990.49
Meats	1597.85	+0.72	+7.57	2.20	1.29	1598.35
Refrigerals, Food	591.28	+4.57	+2.89	2.08	4.69	596.35
Refrigerals, General	1268.32	+0.07	+0.36	2.17	0.10	1268.32
Telecommunications	1035.57	-0.02	-0.15	1.87	2.51	1034.00
Wholesale, Fruits & Veggies	956.52	-5.56	-5.62	2.76	4.91	961.49

Support Services	1030.82	+0.60	+0.65	1.25	4.39	1031.29
Transport	1038.08	+0.84	+6.63	2.48	6.39	1053.28
Information Technology	1041.78	+0.88	+6.83	0.40	2.23	1044.12
UTILITIES	1200.82	+0.51	+1.79	3.32	23.71	1240.25
Electricity	988.31	+0.94	+5.17	3.47	0.00	998.31
Gas Distribution	1012.28	+0.88	+6.81	1.90	63.72	1084.39
Water	996.33	+0.88	+6.49	5.17	0.00	996.33

	May 22	May 21	May 20	1988 High	1988 Low	Share ownership
DJ Stock 50	3928.28	(4)	3916.16	3988.00	1574.81	3086
DJ Euro Sto 60	3971.39	0	3362.29	3971.39	2465.81	3971.39
MSCI Europe	1227.31	1284.40	1275.95	1286.82	980.50	1286.82

Source: Compustat or FT Information. Data for volume and day 100 consecutive.

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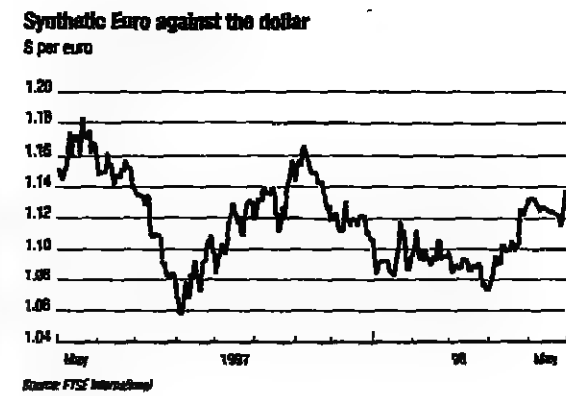
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Wheat	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Barley	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Oats	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Rye	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Triticale	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Wheat	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Barley	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Oats	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Rye	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Triticale	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Wheat	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Barley	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Oats	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Rye	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0	41.0	42.0	43.0	44.0	45.0	46.0	47.0	48.0	49.0	50.0	51.0	52.0	53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0	66.0	67.0	68.0	69.0	70.0	71.0	72.0	73.0	74.0	75.0	76.0	77.0	78.0	79.0	80.0	81.0	82.0	83.0	84.0	85.0	86.0	87.0	88.0	89.0	90.0	91.0	92.0	93.0	94.0	95.0	96.0	97.0	98.0	99.0	100.0
Triticale	1.31	-4.8	7.2	8.8	10.0	11.0	12.0	13.0	14.0	15.0	16.0	17.0	18.0	19.0	20.0	21.0	22.0	23.0	24.0	25.0	26.0	27.0	28.0	29.0	30.0	31.0	32.0	33.0	34.0	35.0	36.0	37.0</																																																															

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CRS	24.78	3.4	2.4	2.7	Prices of stocks may move on public holidays due to currency fluctuations.
USA	15.94	5.1	4.8	2.7	
UK	12.21	1.8	1.4	1.2	

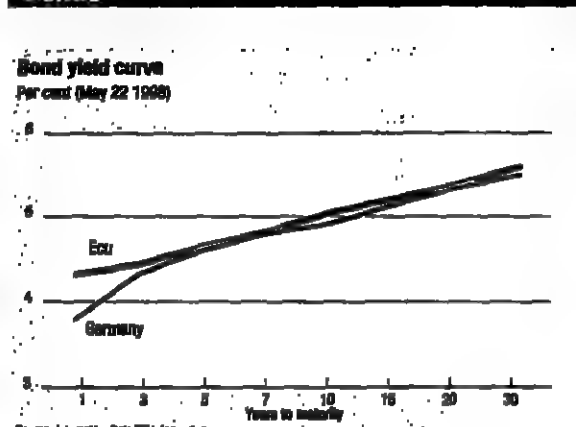
FT SYNTHETIC EURO RATES

[illegible]

EUROZONE CURRENCY CONVERGENCE

[illegible]

BONDS

**EUROZONE CORPORATE BONDS**[illegible]

GOVERNMENT BOND SPREADS VS. EQUITY

May 22	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
Australia	-0.18	-0.02	-0.04	-0.00	+0.00	+0.00
Belgium	-0.13	-0.01	-0.03	-0.00	+0.00	+0.01
France	-0.18	+0.04	+0.06	-0.02	-0.32	-0.56
Germany	-0.21	-0.04	-0.07	-0.00	-0.09	-0.04
Italy	-0.23	-0.08	-0.02	-0.13	-0.04	-0.10
Japan	-0.25	-0.05	-0.02	-0.12	-0.05	-0.18
Lebanon/Bahrain	-0.26	-0.02	-0.19	-0.17	-0.16	+0.11
Netherlands	-0.13	-0.01	+0.08	-0.03	-0.00	+0.01
Portugal	-0.18	-0.07	-0.05	-0.07	-0.01	-0.06
Spain	-0.06	-0.07	-0.12	-0.00	+0.12	+0.31
U.K.	-0.57	-0.22	-0.29	-0.20	-0.11	-0.19
Denmark	+0.58	+0.30	+0.38	+0.32	+0.40	+0.45
Sweden	+0.53	+0.29	+0.31	+0.34	+0.38	+0.33
U.S.	+0.12	+0.22	+0.12	+0.25	+0.42	+0.07

Source: Interactive Data/VP Information. Table shows constant currency constant primary growth rates.

EUROZONE CREDIT SPREADS vs ECU

May 22	S & P rating	Feed date	Origin	Curvacy code	Spread	Spread basis	Spread mth up
IFW	AAA	01/1/79	5,000	D5H	+0.01	-0.02	+0.05
France Telecom	Aaa	11/6/8	0,250	FF	+0.14	+0.17	+0.22
Hallibur	A+	07/6/7	0,525	D5H	+0.15	+0.18	+0.23
IBM	AAA	01/1/79	5,000	FF	+0.17	+0.17	+0.22
Hughes W. Int.	A+	02/2/8	9,750	7L	+0.31	+0.26	+0.78
Old Frontier	A	02/6/3	7,250	D5H	+0.34	+0.35	+0.82
Thomson-Schneider	A-	03/6/4	6,375	FF	+0.30	+0.30	+0.77
Guatemala Elec. S&B	BBB+	04/6/4	6,250	FF	+0.37	+0.30	+0.57
North Carolina	BBB	07/6/9	7,125	D5H	+0.71	+0.79	+0.50
Nat'l Steel/Hangary	A-	07/6/9	5,000	ATS	+0.83	+0.86	+1.34
Norsk Data	BBB+	11/6/8	5,000	FF	+0.47	+0.42	+0.85

Source: Interactive DPMF Information. Table shows yield spreads to the five year rate for basis risk.

Intuitively representative credit in each rating level represented in Euro '77 currency.

**This is how the euro would
affect today's stock.**

**Soon it will affect
your accounting procedures,
long term investments,
contracts, pricing strategies and
even your salary.**

Find out how IBM can help.

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Solutions for a small planet

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INVESTMENT TRUSTS - Continued

	Rate	Price change	net	pa
Life Offices Opns	218	2.1	0.3	May
Los & St Lawrence	215	2.0	1.2	Jun
Lynwood	212	2.5	1.3	Jun
Maple	211	2.5	1.3	Jun
Marquette & Len	210	3.0	0.1	Jun
Mont Carlo East	209	3.7	-	Jun
Mont Carlo West	208	3.0	-	Jun
Mont Carlo Japan	207	3.5	-	Jun
Mont Carlo Monaco	206	2.9	1.9	Jun
Mont Carlo Paris	205	2.7	1.9	Jun
Warrick	204	4.6	-	Jun
Mont Carlo Soc	203	4.1	-	Jun

Wetlands	1.4	14.5
Nonwetlands	2.1	2.0

[illegible]

Paragon Inc. & Growth	148.4	-3	3.89	Dec. 1
Microcap	51.2	-1.6	-	-

[illegible]

Shires Smaller Co's	2002	2001	2000
Shires Smaller Co's	2002	2001	2000

Company	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404
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...a good way. See page 67. **London Green Service**

INV TRUSTS SPLIT CAPITAL				
Holder	Price	% chg	Div. rat.	Dividends paid
Approved by the Federal Reserve				
Standard Fed Euro Dr Fd	22 1/2	0.1	—	—
Northrup Split Inc.	74 3/8	—	7 1/2	7.50444444
Cap	35 1/2	—	—	—
Univ.	35 1/2	—	1 1/2	1.50000000
Investment Inc.	35 1/2	—	—	—

1-800-368-7232

[illegible]

Zero-Cap Prod.	397.4	0.1	10.9
Inventory Inc. & Costs Inc.	34	—	10.9

Account	Debit	Credit
1000 Cash		1000
1010 Accounts Receivable		1010
1020 Inventory		1020
1030 Prepaid Expenses		1030
1040 Equipment		1040
1050 Accumulated Depreciation		1050
2000 Accounts Payable	2000	
2010 Notes Payable	2010	
2020 Long-Term Debt	2020	
2030 Equity	2030	
2040 Retained Earnings	2040	
3000 Sales	3000	
3010 Cost of Sales	3010	
3020 Operating Expenses	3020	
3030 Non-Operating Expenses	3030	
3040 Income Tax Expense	3040	
3050 Dividend Income	3050	
3060 Interest Income	3060	
3070 Other Income	3070	
3080 Other Expenses	3080	
3090 Other Income	3090	
3100 Other Expenses	3100	
3110 Other Income	3110	
3120 Other Expenses	3120	
3130 Other Income	3130	
3140 Other Expenses	3140	
3150 Other Income	3150	
3160 Other Expenses	3160	
3170 Other Income	3170	
3180 Other Expenses	3180	
3190 Other Income	3190	
3200 Other Expenses	3200	
3210 Other Income	3210	
3220 Other Expenses	3220	
3230 Other Income	3230	
3240 Other Expenses	3240	
3250 Other Income	3250	
3260 Other Expenses	3260	
3270 Other Income	3270	
3280 Other Expenses	3280	
3290 Other Income	3290	
3300 Other Expenses	3300	
3310 Other Income	3310	
3320 Other Expenses	3320	
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3700 Other Expenses	3700	
3710 Other Income	3710	
3720 Other Expenses	3720	
3730 Other Income	3730	
3740 Other Expenses	3740	
3750 Other Income	3750	
3760 Other Expenses	3760	
3770 Other Income	3770	
3780 Other Expenses	3780	
3790 Other Income	3790	
3800 Other Expenses	3800	
3810 Other Income	3810	
3820 Other Expenses	3820	
3830 Other Income	3830	
3840 Other Expenses	3840	
3850 Other Income	3850	
3860 Other Expenses	3860	
3870 Other Income	3870	
3880 Other Expenses	3880	
3890 Other Income	3890	
3900 Other Expenses	3900	
3910 Other Income	3910	
3920 Other Expenses	3920	
3930 Other Income	3930	
3940 Other Expenses	3940	
3950 Other Income	3950	
3960 Other Expenses	3960	
3970 Other Income	3970	
3980 Other Expenses	3980	
3990 Other Income	3990	
4000 Other Expenses	4000	

Wages	415	---	---
Auto Lic Per	130	---	---

[illegible]

Per inch Green	39.5	3.5	4.1	Apr-Sep
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[illegible]

NO. 100-100000-100000 100 02 - -

DECLASSIFICATION AUTHORITY: 25 USC 552

Cap	1.1	1.1	1.1
Ex An	1.1	1.1	1.1

[illegible]

1991
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[illegible]

Wages	415	---	---
Auto Lic Per	130	---	---

[illegible]

Per inch Green	39.5	3.5	4.1	Apr-Sep
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[illegible]

0.7

[illegible]

NO. 100-100000-100000 100 02 - -

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

FT MANAGED FUNDS SERVICE[illegible]

Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

[illegible][illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

[illegible]**FT/S&P ACTUARIES WORLD INDICES**

The FTSE4All Academic World indices are owned by FTSE International Limited, Goltower, Sutcliffe & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. Statutory Securities Ltd. was a co-founder of the indices.

[illegible]

Emerging markets:

IFC investable indices

[illegible]

4 may close May 22

INSECTS									
Country	Symbol	Current Price	Previous Price	Net Change	% Change	Country	Symbol	Current Price	Previous Price
USA	US	100.00	99.50	0.50	0.50%	USA	US	100.00	99.50
UK	UK	100.00	99.50	0.50	0.50%	UK	UK	100.00	99.50
Germany	DE	100.00	99.50	0.50	0.50%	Germany	DE	100.00	99.50
France	FR	100.00	99.50	0.50	0.50%	France	FR	100.00	99.50
Italy	IT	100.00	99.50	0.50	0.50%	Italy	IT	100.00	99.50
Spain	ES	100.00	99.50	0.50	0.50%	Spain	ES	100.00	99.50
Japan	JP	100.00	99.50	0.50	0.50%	Japan	JP	100.00	99.50
China	CN	100.00	99.50	0.50	0.50%	China	CN	100.00	99.50
India	IN	100.00	99.50	0.50	0.50%	India	IN	100.00	99.50
Brazil	BR	100.00	99.50	0.50	0.50%	Brazil	BR	100.00	99.50
Argentina	AR	100.00	99.50	0.50	0.50%	Argentina	AR	100.00	99.50
South Africa	ZA	100.00	99.50	0.50	0.50%	South Africa	ZA	100.00	99.50
Russia	RU	100.00	99.50	0.50	0.50%	Russia	RU	100.00	99.50
Ukraine	UA	100.00	99.50	0.50	0.50%	Ukraine	UA	100.00	99.50
Poland	PL	100.00	99.50	0.50	0.50%	Poland	PL	100.00	99.50
Czech Republic	CZ	100.00	99.50	0.50	0.50%	Czech Republic	CZ	100.00	99.50
Slovak Republic	SK	100.00	99.50	0.50	0.50%	Slovak Republic	SK	100.00	99.50
Hungary	HU	100.00	99.50	0.50	0.50%	Hungary	HU	100.00	99.50
Romania	RO	100.00	99.50	0.50	0.50%	Romania	RO	100.00	99.50
Bulgaria	BG	100.00	99.50	0.50	0.50%	Bulgaria	BG	100.00	99.50
Greece	GR	100.00	99.50	0.50	0.50%	Greece	GR	100.00	99.50
Turkey	TR	100.00	99.50	0.50	0.50%	Turkey	TR	100.00	99.50
Israel	IL	100.00	99.50	0.50	0.50%	Israel	IL	100.00	99.50
South Korea	KR	100.00	99.50	0.50	0.50%	South Korea	KR	100.00	99.50
Thailand	TH	100.00	99.50	0.50	0.50%	Thailand	TH	100.00	99.50
Vietnam	VN	100.00	99.50	0.50	0.50%	Vietnam	VN	100.00	99.50
Philippines	PH	100.00	99.50	0.50	0.50%	Philippines	PH	100.00	99.50
Indonesia	ID	100.00	99.50	0.50	0.50%	Indonesia	ID	100.00	99.50
Malaysia	MY	100.00	99.50	0.50	0.50%	Malaysia	MY	100.00	99.50
Singapore	SG	100.00	99.50	0.50	0.50%	Singapore	SG	100.00	99.50
India	IN	100.00	99.50	0.50	0.50%	India	IN	100.00	99.50
China	CN	100.00	99.50	0.50	0.50%	China	CN	100.00	99.50
Japan	JP	100.00	99.50	0.50	0.50%	Japan	JP	100.00	99.50
USA	US	100.00	99.50	0.50	0.50%	USA	US	100.00	99.50
UK	UK	100.00	99.50	0.50	0.50%	UK	UK	100.00	99.50
Germany	DE	100.00	99.50	0.50	0.50%	Germany	DE	100.00	99.50
France	FR	100.00	99.50	0.50	0.50%	France	FR	100.00	99.50
Italy	IT	100.00	99.50	0.50	0.50%	Italy	IT	100.00	99.50
Spain	ES	100.00	99.50	0.50	0.50%	Spain	ES	100.00	99.50
Japan	JP	100.00	99.50	0.50	0.50%	Japan	JP	100.00	99.50
China	CN	100.00	99.50	0.50	0.50%	China	CN	100.00	99.50
India	IN	100.00	99.50	0.50	0.50%	India	IN	100.00	99.50
Brazil	BR	100.00	99.50	0.50	0.50%	Brazil	BR	100.00	99.50

MONDAY 25

Swiss history

Switzerland publishes its first detailed report on its gold transactions during World War II. The sums of money involved are already well known, but the 200-page report by a panel of international historians, led by Professor Jean-François Bergier, will attempt to assess the motivation of the Swiss authorities at the time and shed light on questions such as Switzerland's role in prolonging World War II by financing the German war machine. If the report is particularly critical it could increase the pressure on the big three Swiss banks to make a sizeable and speedy settlement of the multibillion dollar class actions they are trying to resolve in the US. It may also provide ammunition for US lawyers who are keen to launch a similar class action against the Swiss National Bank, which handled the bulk of the gold transactions with Nazi Germany.

Spanish trial

The trial begins in Spain's supreme court of former interior minister José Balmori and 11 others over the "dirty war" carried out against Basque terrorist suspects in the mid-1980s. They are all charged in relation to a kidnapping in 1983, the beginning of a four-year campaign by the so-called Anti-Terrorist Liberation Groups (GAL), which killed more than 20 people in south-west France. The accused include eight police officers, two former top security officials and a former local Socialist party chief. Public prosecutors are seeking jail sentences totalling 178 years.

North-south view

South African President Nelson Mandela and Jose Ramos Horta, the East Timorese Nobel Peace Prize winner, are among invited speakers at the North-South Conference for Sustainable Development (to May 29) in Bern, Switzerland.

Agenda 2000 discussed

European Union foreign ministers in Brussels will hold their first detailed discussion on the Agenda 2000 programme of EU reforms, in preparation for next month's EU summit in Cardiff. They will also discuss attempts to improve relations with Turkey, and preparations for an association council with Turkey due to take place in the evening - but still uncertain to go ahead, amid objections from Greece to the terms of the discussions. Ministers are likely to reiterate the EU's condemnation of India's nuclear tests and discuss future relations with the sub-continent, plus the possibility of upgrading relations with Pakistan in an attempt to persuade it not to carry out its own tests. They will give their first response to last week's deal over the US Helms-Burton and Iran-Libya sanctions laws, as well as discussing the deadlock in the Middle East peace process.

CAP reform thoughts

European Union agriculture ministers will be discussing reform of the Common



Japanese Emperor Akihito is to receive one of Britain's most coveted decorations from the Queen this week amid continuing protests by former prisoners of war

Agricultural Policy when they hold their monthly meeting in Brussels. The UK presidency of the union is preparing a statement summarising ministers' latest thoughts on reform for the heads of state summit in Cardiff next month. Specific conclusions are unlikely.

Opec preparations

The board of governors of the Organisation of Petroleum Exporting Countries meets in Vienna to draw up an agenda for the group's summer ministerial conference which will be held on June 24. Opec technical experts are scheduled to meet on June 15 ahead of the conference and the four-man monitoring committee on June 23.

Balkan forum

Tirane hosts a two-day Balkan forum aimed at boosting economic development in the troubled region; the US-inspired Southeast Europe Co-operation Initiative (SECI) was set up in 1995 to foster economic relations among Balkan states and help them integrate into European Union structures.

Tennis

The French Open is played out in Paris until June 7.

Holidays

UK, Ukraine, Jordan, Mauritania, Zimbabwe, Argentina, US, Venezuela.

TUESDAY 26

Imperial visit

Japanese Emperor Akihito and Empress Michiko arrive for their state visit to Britain as part of a European tour. The emperor is to be presented by Queen Elizabeth with the Order of the Garter and the imperial couple will lay a wreath at the tomb of the unknown soldier in London; former British prisoners of war and internees of the Japanese plan a demonstration in front of the Japanese embassy to demand a full apology and what they consider appropriate compensation for their sufferings. Embassy officials point out that the issue of compensation was settled legally under a treaty of 1951 and that Japan has made a full and unequivocal apology.

Transport agenda

A two-day European Union transport ministers' conference opens in Copenhagen; the agenda includes railway policy, modern technology, investment and road transport.



Sweet talking

The current state of the world's sugar industry will be discussed at a ministerial meeting in Havana of the International Sugar Organisation, made up of the world's leading producers and consumers. Prospects for leading producers and import projections by major consumers, as well as the effects of cane sugar substitutes on the market, will be discussed by the ministers, technocrats and scientists. Thirty four countries will be represented, but Cuban officials could not say whether the US, a major consumer, will attend.

Indonesian debt round

Deutsche Bank hosts the next round of talks on the rescheduling of Indonesian debt in Frankfurt. Deutsche Bank of Tokyo-Mitsubishi (DTM) and Chase Manhattan co-chair the steering committee representing banks at the talks. Indonesia and its creditors failed to reach agreement in their last round of talks in Tokyo on May 10 to reschedule \$80bn in private sector debt.

Up for sail

The world's largest cruise ship, the 109,000 tonne Grand Princess, begins her maiden voyage from Istanbul to Barcelona; she boasts five swimming pools, nine restaurants and 1,300 cabins.

FT Survey

Brazilian Privatisation.

Holiday

Georgia, Turkey.

WEDNESDAY 27

African bank meeting

Up to 1,700 delegates are expected to attend the annual meeting of the African Development Bank which opens in Abidjan and continues until Friday. A plan to increase the capital of the bank by 35 per cent and give non-African shareholders more voting powers will be put to the meeting.

Greek stoppage

Greece's biggest labour confederation, GSEE, calls a 24-hour nationwide strike to protest against the socialist government's privatisation plans.

THURSDAY 28

Experts on debt

Bank of England governor Eddie George and Guillermo Ortiz, his counterpart at the Bank of Mexico, are among speakers at a London conference arranged by Foreign & Colonial Emerging Markets which aims to examine the Asian debt crisis from the viewpoint of both lenders and borrowers and contrast its corporate roots with the government borrowing

basis of Latin American debt problems. Contact 0171 831 3113.

Nato-Russia talks

North Atlantic Treaty Organisation foreign ministers meet their counterparts from Russia and Ukraine for talks in Luxembourg.

Danish referendum

Denmark holds a referendum on revisions to the European Union's Amsterdam treaty which would pave the way for EU enlargement eastwards and a common policy on refugees and asylum.

Bear facts



A man charged with hijacking a Turkish Airlines jet with a teddy bear which he claimed contained a bomb goes on trial in Diyarbakir, Turkey.

Holidays

Armenia, Azerbaijan.

SATURDAY 30

Chirac goes to Beirut

French president Jacques Chirac visits Lebanon to attend the inauguration of the rebuilt French ambassador's residence in Beirut, which was badly damaged during the Lebanese civil war.

FT Survey

Guide to Unit Trusts (UK editions only).

Holidays

Hong Kong, Taiwan, Croatia.

SUNDAY 31

Ecuadorians vote

Ecuadorians vote in the first round of presidential elections. The most likely candidates to go through to the second round on July 12, opinion polls say, are Quito's mayor Jamil Mahuad, of the centre-right Popular Democracy party, and businessman Alvaro Noboa, backed by former President Abdala Bucaram. With a new president in office for a four-year term, Ecuadorians hope the elections will help end a period of political instability. Voters will also pick a new congress to sit for four years after a recent constitutional reform abolished mid-term elections.

Holidays

Israel, Germany, Senegal.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: The New Zealand Reserve Bank's monetary policy statement should sanction an easing in monetary conditions.
Tuesday: US existing home sales should have eased in April, while consumer confidence is thought to have dropped a little in May. Household consumption in France is thought to have risen in April following two consecutive falls.
Wednesday: Japanese industrial production should have continued declining in April as companies ran down stocks, but large retailers should post their first rise in sales since taxes went up.
Thursday: The Confederation of British Industry's monthly trends survey will show whether UK manufacturers have taken comfort from sterling's recent decline. US first quarter GDP growth may be revised upwards slightly. The Bundesbank is expected to keep interest rates on hold.
Friday: The UK's trade deficit should have fallen back in March, reflecting a smaller non-EU deficit, but the underlying trend should still be worsening. French employment probably rose again in April.

Statistics to be released this week

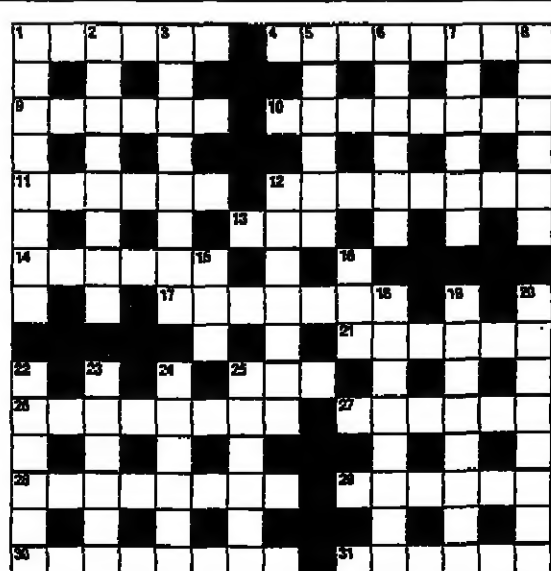
Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	Japan	Apr supermarket sales**	N/A	-10.7%	May 29	Japan	Apr consumer price index** (nation)	0.4%	2.2%
May 25	Japan	Apr department store sales**	N/A	-20.8%		Japan	Apr construction orders**	N/A	-4.7%
	Germany	Apr producer price index*	0.2%	-0.1%		Japan	Apr housing starts**	10.5%	-11.9%
	Germany	Apr producer price index**	0.5%	0.8%		Japan	Apr construction starts**	N/A	-12.4%
Tuesday	France	Apr household consumption**	2.0%	-0.1%		Italy	Mar EU trade balance	10.8bn	10.2bn
May 26	US	BTM-Schroders May 23	N/A	1.2%		Italy	Apr ex-EU trade balance	13.8bn	14.6bn
	US	Apr existing home sales	4.70m	4.58m		UK	Mar global visible trade	-21.5bn	-22.2bn
	US	May consumer confidence	155.3	136.7		UK	Apr ex-EU visible trade	-21.2bn	-21.1bn
	Japan	May trade balance (first 10 days) not†	N/A	-Y43bn		UK	Apr EU harmonised cons-price index	N/A	-1.6%
Weds	France	Mar trade balance†	FF13.7bn	FF13.9bn		US	Apr personal income**	0.3%	0.3%
May 27	Japan	Apr industrial production†	-2.5%	-2.3%		US	Apr personal consumer expenditure	0.5%	0.5%
	Japan	Apr shipments†	N/A	-1.4%		US	May Chicago PMI†	58.0%	58.6%
	Japan	Apr retail sales**	6.1%	-14.9%		US	May Michigan Sentiment final**	105.5	105.2
Thurs	Japan	Mar coincident index	10.0%	25.0%		US	May agriculture prices	N/A	2.9%
May 28	Japan	Mar leading differential index	30.0%	22.2%	During the week...				
	UK	May CBI industrial trends	N/A	N/A		Germany	Apr loan consumer climate	N/A	101
	US	Apr durable orders	0.5%	0.4%		Germany	Apr import prices**	0.0%	-0.6%
	US	Apr durable shipments	N/A	1.4%		Germany	Apr import prices**	0.3%	-0.5%
	US	Q1 GDP preliminary	4.4%	4.2%		Germany	May Hesse cost of living*	N/A	0.3%
	US	Q1 GDP chain price index	0.8%	0.9%		Germany	May Bavaria cost of living*	N/A	0.2%
	US	Initial claims May 23	310k	313k		Germany	May B Water cost of living*	N/A	0.3%
	US	State benefits May 23	N/A	2107k		Germany	May Nord Rhine Westphalia cost of liv**	N/A	0.1%
	US	Q1 after tax corporate profit prelim	0.5%	-2.3%		Germany	May price cost of living* west	0.3%	0.3%
	Canada	Apr department store sales**	11.8%	12.4%		Germany	May price cost of living* west	1.2%	1.4%
Fri	Japan	May consumer price index** (Tokyo)	0.5%	0.7%	*month on month, **year on year, seasonally adjusted				
Statistics courtesy Standard & Poor's Market Intelligence									

ACROSS

- He is responsible for delivery of course (6)
- Rush out at speed round Maidenhead (8)
- For instance, could be the landlord (6)
- Straddle the finest horse (8)
- Quarrel over your old fashioned notability (6)
- Getting rid of new move in operatic sequence (8)
- Used to be, when wife came first (3)
- Take offence at money paid to house stock exchange (6)
- Vehicle reversed into m-mountain. Another one will pull it out (7)
- Hint about container for vegetable (6)
- Boring routine found back in 21 (3)
- One who brings forward new cure after gentle shove (8)
- Give proof at cricket match (6)
- I'm our MEP, negotiating for a trading centre (8)
- Love farm fruit (6)
- Cloudy weather at boring stretch of water (8)
- Private words on a second date (6)

DOWN

- Shabby, but fit to be used as a cover (8)
- Dividend comes from being at home on new street (8)
- One who never forgets the penal settlement (8)
- He's met the revolting subjects (6)
- Way of acting hot and bothered in the sea (6)
- Bring out lawful support for third amendment (6)
- Green revolution takes on youth leader's vigour (6)
- Bitterness at having managed only two thirds of the course (7)
- Test score (3)
- Firm time for bed (3)
- Ordered to rest up after game breaks (8)
- Imprisoned doctor and journalist (8)
- Awful spite about the awful names (8)
- Become more extended (6)
- Force leading lady to come round the piano at the start (6)
- Made swifter progress, but not in right article (6)
- Comes back again, being concerned about the dogs



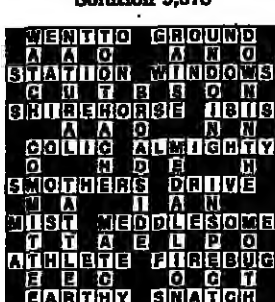
Winner of Puzzle No.9,678: D. Westhoff, Cham, Switzerland

MONDAY PRIZE CROSSWORD
No.9,690 Set by ADAMANT

A magnum of Laurent Perrier Rose champagne for the first correct solution opened. This prize is available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a stainless steel FT desk clock. Solutions by Thursday June 4, marked Monday Crossword 9,690 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8UL. Solution on Monday June 8. Please allow 28 days for delivery of prizes.

Name _____
Address _____

Solution 9,678



JOTTER PAD

**Notice to Noteholders of
U.S. Office Products Company
5% Convertible Subordinated Notes due 2003
of a distribution on the common stock of
U.S. Office Products Company**

U.S. Office Products Company, a Delaware corporation (the "Company"), pursuant to Section 5.30 of the Indenture between the Company and The Chase Manhattan Bank as Trustee, dated May 22, 1996 (the "Indenture"), hereby notifies the holders of its 5% Convertible Subordinated Notes due 2003 that:

- The Company intends to distribute to each holder of its common stock, per value U.S. \$0.01 per share (the "Common Stock"), shares of common stock of four separate companies currently owned by the Company. The distribution ratios are as follows: one share of common stock of Aztec Technology Partners, Inc. for each 5 shares of Common Stock; one share of common stock of Navigant International, Inc. for each 10 shares of Common Stock; one share of common stock of School Specialty, Inc. for each 9 shares of Common Stock; and one share of common stock of Worldview Management, Inc. for each 7.5 shares of Common Stock.
- The record date for such distribution is expected to be June 9, 1998.

The Chase Manhattan Bank
on behalf of
U.S. Office Products Company
May 25, 1998

This replaces the ad. published on May 18, 98

The Hellenic Republic
US\$200,000,000
Floating Rate Notes Due November 1999

In accordance with the provisions of the Prospectus, the following information is hereby given:

Interest Period: 10.00%, 10.00%, 10.00%, 10.00%
Days of Interest: 1,000 days
Coupon Dates: 1,000, 1,000, 1,000, 1,000
Redemption Dates: 1,000, 1,000, 1,000, 1,000

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